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AUSTRIA'S
ECONOMIC
DEVELOPMENT
BETWEEN THE
TWO WARS

BY
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[TITLE PAGE]

PREFACE

THE world has become a small place. More and more people in every country want to or have to obtain information about conditions in other countries. It is for these people that this book has been written. It does not break any new ground but tries to bring together in a convenient and manageable form material which is spread over a large number of different books and periodicals, and to interpret it in the light of our experiences in recent years.

In these days of shortages of labour and material the gap between the writing of a book and its publication has become painfully wide. Events often change an argument completely before the printer has caught up with the written word. Fortunately, most of this book deals with the past which has the pleasant habit of remaining what it was (though the interpretation may change) no matter how crazy the world may behave to-day. And even the last chapter on "Future Prospects" deals with questions of long-term development which are not directly affected by to-day's events.

Nevertheless, if I wrote this last chapter to-day instead of more than a year ago I would have to adopt a less optimistic and a more warning note. I still believe that in spite of many difficulties the objective circumstances for a speedy revival and healthy growth of Austria's economy are given. But more and more the policy of the present government allows the opportunities for reconstruction to slip by. There are again signs of passivity and of excessive reliance on help from outside which had such harmful effects after the first World War, and which have

PREFACE

000 already a damping influence on the spirit of the people. There is a tendency for party politics to take precedence over the national problem of a democratic revival and a thorough de-nazification without which a sound economic development cannot take place. But, above all, there is a softness towards vested interests which has prevented the government from dealing effectively with such vital matters as food distribution, nationalization of key industries, and currency reform, and there is a foreign policy so badly imbued with the prejudices of the past that the natural and essential trade relations with Austria's Slav neighbours and with the Soviet Union are deliberately neglected.

In view of all this it is not surprising that Austria has fallen sadly behind her neighbours in the great struggle for reconstruction. Only recently, a correspondent in the *Manchester Guardian* wrote that crossing the frontier from Czechoslovakia into Austria one did not only enter a desert of supplies but also a desert of spirit. There is no need for such discrepancies. Provided the proper policies are adopted Austria could move in step with the other nations and provide the basis for a happy future of her sorely tried people. But there is not much time to be lost. If passivity and sectional interests are allowed to continue their rule then Austria may become completely dependent on foreign financial help with all the interference and uncertainties it involves.

It remains my pleasant duty to express my gratitude to Dr. Theodor Prager who has read through the whole manuscript and whose numerous suggestions and improvements have left their mark on practically every page.

K. W. ROTHSCHILD

1946

CONTENTS

I	INTRODUCTION	page	I
	The importance of Austria		I
	Natural resources		5
	Austria's development before the last war		8
II	THE BIRTH OF A NEW REPUBLIC: EARLY DIFFICULTIES		14
	Austria's exhaustion after the Great War		14
	The inflation		19
	The stabilization of the currency		31
III	READJUSTMENT AND CONSOLIDATION		36
	Readjustment		36
	Consolidation		44
IV	THE EFFECTS OF THE WORLD CRISIS		51
V	RECOVERY		65
	Towards a balanced national economy		65
	The new political framework		70
VI	THE SHADOW OF GERMANY		79
	Economic penetration		79
	After the annexation		85
VII	FUTURE PROSPECTS		93

MAPS AND DIAGRAMS

Eleven maps in three colours and nine pages of diagrams, all from drawings by Arthur Korn, will be found following the index at end of book.

CHAPTER I

INTRODUCTION

THE IMPORTANCE OF AUSTRIA.

128 WHEN the Foreign Secretaries of Britain, the Soviet Union, and the United States met in Moscow in November, 1943, they issued a declaration stating that Austria, the first victim of German aggression, was to regain her independence at the end of the war; that this independence was to "open the way for the Austrian peoples themselves, as well as those neighbouring states which will be faced with similar problems, to find that political and economic security which is the only basis for lasting peace"; and that Austria's position would depend on the part the Austrians themselves play in their liberation.

131 This declaration was testimony to the importance which
721 is attached to Austria's independence from the point of view of European and world peace. A glance at the map reveals at once the central position which Austria occupies in the heart of Europe. Her frontiers border on six other countries; her capital, Vienna, lies at the junction of Europe's main east-west and south-north arteries; while the Danube is a natural gateway to the Balkans. Just as the collaboration of the Habsburgs was essential to the realization of Emperor Wilhelm's Berlin-Bagdad dreams in 1914, so the occupation of Austria in 1938 was the first prerequisite for Hitler's attacks on Czechoslovakia, Poland, the Balkans, and the Soviet Union. A prosperous and independent Austria, fully co-operating with her

AUSTRIA'S ECONOMIC DEVELOPMENT

131 democratic neighbours, is therefore an essential condition
721 for checking Germany's "*Drang nach dem Osten*" in the
future. Indeed, if the Austrian state had not existed it
might have been necessary to invent it.

721 Fortunately, no such invention is needed. The events
which have taken place in Austria in the days of liberation,
642 and since, testify to the ardent desire of most Austrians to
rebuild their country on a firm, independent, and demo-
cratic basis. Austrians from all sections of society took part
in the armed expulsion of the German occupationists.
The liberating armies in the east and in the west were
everywhere greeted with joy. For the first time in Austria's
history, there is a spirit of unity and common purpose
among all democratic Austrians. This has enabled them
to form in a surprisingly short space of time a truly
representative government, free trade unions, a pro-
gressive youth movement, and other democratic bodies
which have made a bold start in rebuilding the shattered
political and economic fabric. Remnants of Nazi cells
[668] and of Nazi ideology have certainly survived and remain
to be dealt with. But there is no doubt that the vast
majority of Austrians have been cured of any illusions
they may have entertained about the necessity or desir-
ability of an *Anschluss*.

433 This is a very welcome fact. It is, indeed, an essential
condition of any democratic revival. But it is not, by
itself, sufficient. As the Moscow Declaration rightly indi-
cates, the creation of satisfactory economic conditions is
essential if stability and peace in that area are to be
secured. And it is on this score that some people, who
are otherwise entirely in favour of Austrian independence,
begin to raise their doubts. They remember the pro-
longed controversies after the last war which centred on
this very point: whether the new Austrian Republic would

INTRODUCTION

be able to lead a healthy economic life. These are doubts 433 which have persisted down to the present day, in spite of twenty years of an independent Austrian economy.

At first sight, it seems rather strange that Austria should be singled out in this way. Why is the same question never raised with regard to other small nations in Europe or South America? For Austria is in many ways far better placed than many other countries. She possesses a considerable variety of important natural resources; far more, for instance, than her wealthy western neighbour, Switzerland. There are almost unlimited sources of water-power; there is a wealth of timber, iron ore, and oil; the population contains a high proportion of skilled workers in a large number of industries; and Austria is situated at the junction of a number of major European trade routes. Thus we find that Austria is better off than any of the other eastern and south-eastern European countries, about whose viability there has been no question whatever.

Nevertheless, it is not difficult to discover why Austria was singled out for this kind of discussion. The end of the last war saw the break-up of the Habsburg Empire and the birth of a number of new national states. Now, while each of these states was faced with problems arising from the new economic set-up, Austria, above all others, was regarded as the mutilated remnant of the old Monarchy. This country, with its 6½ million inhabitants, formerly a metropolitan province of a 50 million empire and closely integrated into its economic life, had now to adjust itself to a completely new economic and political environment. Would the new Austria, impoverished by war and inflation, be able to accomplish this task smoothly and within a reasonable space of time?

As we shall see later, Austria managed, after some 648 difficult and troublesome years, to tackle this problem and

AUSTRIA'S ECONOMIC DEVELOPMENT

648 to stand on her own feet. But the doubts about Austria's viability were not silenced. On the contrary; they were raised with increasing insistence in at least one quarter: amongst the Pan-Germans in Germany and in Austria. To-day, we see more clearly, perhaps, than ever before how the arguments against Austria's economic independence were used to further Germany's imperialist designs, both before and after Hitler's access to power in Germany.

It was not without effect. The constant repetition of the same argument weakened Austria's power of political and economic recuperation and progress.

121 Nor, as we have seen, has this propaganda failed to make headway elsewhere. The doubts of 1920 still linger on. If, in the following pages, we tell the story of Austria's economic development in her twenty years of independent existence, this is not only to show what has been achieved, and what lessons need to be drawn from the experiences and mistakes of the past, but also to destroy finally the myth of Austria's "inability to live".

727 At present, there are naturally many initial difficulties to overcome before Austria will become prosperous and 433 economically healthy. These difficulties, however, are simply consequences of a process of looting in the course of seven years during which Austria was harnessed to the German war economy, and of heavy destruction wrought during the last phase of the war. Disruption of transport and traffic, acute shortage of food and other essentials, temporary isolation from the outside world—these are consequences of war which Austria shares with all states of Europe which had been under German rule. It is absolutely clear that without large supplies of food and fuel Europe as a whole will barely be able to live through the first years of peace. Thus, in Austria, too, all available

INTRODUCTION

energies will have to be directed to securing by improvis-4/33
ation the bare means of existence and survival. Even 727
after the initial period only a gradual progress in recon-
struction is to be expected. This book does not intend to
deal with the difficult and manifold problems of the 121
immediate post-war emergency measures. It has a wider
aim. It proposes, by a critical study of the inter-war
period, to outline more generally how Austria, by har-
nessing all her resources and adapting herself to their
best possible use, is able to attain prosperity and to keep
pace with a corresponding process of world economy.

Before turning to the development of the inter-war
years, however, a few words should perhaps be said about
Austria's natural resources and about her economic de-
velopment before the last war.

NATURAL RESOURCES

Austria, like Switzerland, is a mountainous country, 311
and so the scope for agriculture is naturally limited. Only 123
28 per cent of the total area is arable land, while another
30 per cent is taken up by permanent meadow and pasture.
This compares with 47 and 18 per cent respectively for
Czechoslovakia, 68 and 19 per cent for Hungary (a typical
agricultural country), while the percentages for Germany¹ are
46 and 17 and for the United Kingdom² 24 and 31
respectively. Accordingly, Austria belongs to the indus-
trial and food-importing nations of Europe. Even so, her
soil and climatic conditions have favoured the growth of
certain special branches of agriculture, such as those con-
nected with milk and milk products and fruit growing.³
In these fields an export surplus had been achieved by
the beginning of the thirties.

"Land not under cultivation" takes up as much as 42 311
per cent of the total. That 42 per cent represents, how- 187

1 [In 1930, i.e. exclusive 5 OF THE SAAR TERRITORY]
2 [FIGURES FOR 1927]

3 [Cf. CAT. 116, p. 12 -- ANALYST]

AUSTRIA'S ECONOMIC DEVELOPMENT

311 ever, one of the most important natural resources of
137 Austria: her forests. In a Europe greatly deficient in
[313] timber this is a great asset, and wood has, in fact, been one
[439] of the main items on Austria's export list. With an
export of 1,236,000 cubic metres of sawn softwood—
more than half of the trees are spruce—Austria provided
5.3 per cent of world exports in 1935 and took the sixth
place among exporting countries.

135 What of Austria's resources in minerals and energy?
Here the picture does not differ greatly from that presented by other industrial countries, not counting the almost self-sufficient continents of the Soviet Union and the United States: considerable deposits of certain important materials are accompanied by a more or less complete absence of others.

135 Take the two basic materials of heavy industry: iron
316 ore and coal. Austria is a country with considerable resources of iron ore, 90 per cent of which comes from the famous Erzberg in Styria, where the ore has an iron content of 40 per cent. Production in 1937 was 1,885,000 tons* which—in metal content—represented 0.7 per cent of the world output; about one-sixth of this was exported. Coal, on the other hand, is only to be found in quite insufficient quantities. In 1937, production amounted to only 230,000 tons while 2,657,000 tons had to be imported. On the other hand, lignite is plentiful: an output of 3,244,000 tons required to be supplemented by only 185,000 tons of imports. Some of the lignite deposits are in close proximity to the iron ore deposits in Styria which has greatly contributed to the growth of the iron and steel industries in that district.

There are also considerable deposits of magnesite, lead, copper, graphite, and salt. In 1935, Austria produced 24

* Unless otherwise stated, "tons" always mean metric tons.

INTRODUCTION

per cent of the world's output of magnesite and thus took¹³⁵ second place after the Soviet Union. In producing 9 per³¹⁶ cent of the world's graphite output, Austria followed close on the Soviet Union, Korea, and Germany.⁴² The output of other minerals was less impressive and there were no great export surpluses.

About fifteen years ago, oil was discovered near the little village of Zistersdorf, near Vienna. Production was started in 1932 at the very low level of 100 tons, but it increased quickly until it reached 33,000 tons in 1937, the last year of Austria's independence. Since then the Germans, in their urgent need for oil, greatly increased the output in this district and annual production reached a level of one to two million tons. This quantity greatly exceeds Austria's peace-time requirements of oil.

As against her lack of coal, Austria is in the fortunate position of having a practically unlimited supply of water power. Although this had by no means been fully harnessed, the 1936 production of 2,680 million kW.h.⁵ of electricity sufficed to cover more than half the country's energy requirements. A small proportion of this electricity (340 million kW.h.) was exported.

Stretching the meaning of "natural resources" somewhat beyond its usual limits, two further assets, of great importance to Austria's economy, may be mentioned at this juncture. These are the geographic position of Austria in the heart of Europe, and the beauty of the Austrian towns and countryside. With regard to the first, Austria and particularly Vienna have, ever since the days of the Roman traders, been important junctions of the main European traffic routes. The Danube Valley, opening a gap between the Alps and the Carpathians, provide an east-west route, linking the Balkans with central and western Europe. At the same time the Brenner

AUSTRIA'S ECONOMIC DEVELOPMENT

487 Pass and the Semmering Pass allow goods from central and northern Europe to cross the Alpine barrier and to travel south to the Mediterranean countries. Further, a number of other important lines of communication fan out from Vienna, enabling Austria to provide important transit services to other countries.

The natural beauty of the Austrian countryside is well known, and the rapid growth of tourist traffic in the inter-war period shows that Austria, like Switzerland, is a natural "recreation centre" not only for her own citizens but for a large number of people from all parts of the world.

AUSTRIA'S DEVELOPMENT BEFORE THE LAST WAR

178 The feudal character of the Habsburg Monarchy was no fertile soil for the development of an industrial bourgeoisie. The industrialization of Austria-Hungary started rather late and proceeded slowly as compared with that of Germany and western Europe. When, however, railways began to be built after 1830, manufacturing establishments sprang up in growing numbers, both to provide for the needs of the railway companies and to make use of the new transport facilities. This process of industrialization gathered momentum after the middle of last century, when the foundations were laid for a great variety of industries. The great depression of 1873 resulted in a serious setback, but progress was soon resumed, though at a somewhat slower rate.

433 A few figures will help to illustrate the rate of growth in that period. Between 1841 and 1871 the production of pig-iron increased from 200,000 tons to 770,000 tons. In 1871 Austria² possessed 1½ million cotton spindles and 580,000 wool spindles. Between 1870 and 1913 the production of coal increased from 3.4 million tons to 16.5

2[CA CAT. 116, P. 12 -- ANALYST⁸]

2[CA CAT 116, P. 12 -- ANALYST]

INTRODUCTION.

million tons, of lignite from 3.1 to 27.4 million tons, of 433
 pig-iron from 0.25 to 1.8 million tons. The railway net- 178
 work increased in the same period from 6,000 km. to
 23,000 km. and considerable strides were also made in
 agriculture and in foreign trade, though the latter played
 only a comparatively small part in the economic life of the
 Empire.

The trend towards industrialization is also shown by 178
 the percentages of persons engaged in Industry and 162
 Commerce at various dates (figures for Austria-Hungary).⁸²

	1869	1890	1900	1910
Industry	19.7	21.3	22.2	24.2
Commerce and Transport	5.2	6.2	7.3	8.8
Agriculture	67.1	62.4	58.1	56.8
Services, Professions and others	8.0	10.1	12.2	9.9

These figures suggest that, in spite of a constant process
 of industrialization, the Austrian-Hungarian Monarchy
 was still a predominantly agricultural country. More-
 over, this process was spread very unevenly over the
 whole area, leaving some regions seriously undeveloped
 while others attained a highly industrial character. While,
 for instance, the percentage of persons employed in agri-
 culture in 1910 was 57 for the whole monarchy, it was 69
 for Hungary alone but only 40 for Bohemia. In fact, 178
 industrialization was largely concentrated in a few areas,
 viz. the Bohemian-Moravian-Silesian region, rich in coal,
 the area round the Styrian iron ore deposits, and the
 Vienna district. Later, another industrial region sprang
 up in Upper Austria, between Steyr, Enns, and Linz.

Several factors were responsible for this high degree

AUSTRIA'S ECONOMIC DEVELOPMENT

178 of localization of industry in the western part of the Monarchy. First, there were strong economic forces working in this direction. The coalfields of Moravia and Silesia, and the iron ore resources of Styria, had great attractions for the heavy industries. Vienna, on the other hand, where the administrative machinery of the whole Empire was centred and where Court and aristocracy lived on a grand scale, was a focus for a great variety of light industries. The food and clothing industries settled down in this area as well as the luxury goods industries which soon reached a high standard. Vienna's importance as the main market also attracted the new electrical and chemical industries to this area. Further, Vienna became an important centre of trade and finance, not only for the Monarchy but for the whole of south-eastern Europe. There were also a number of other important industries spread over other parts of the country. To this group belong above all the important paper industry which settled down near the forest regions of Austria; the spinning mills which, with their raw material imported from the west, tended towards the Swiss frontier; and the weaving factories which migrated to Bohemia and Moravia, centres of cheap power and cheap labour.

But it was not only economic factors which led to the concentration of industries in the western areas. Military considerations, for instance, were responsible for the erection of armament factories as far away from the dangerous eastern frontier as possible. Finally, the nationalities in the eastern parts of the Empire were, as a result of Habsburg policy, neglected politically, economically, and culturally, and their poverty and backwardness was a constant drag on the development of the Empire as a whole. While the western regions of Austria-Hungary were similar in their structure to that of western Europe,

INTRODUCTION

the eastern regions were almost as backward as Tsarist Russia and the Balkan countries.¹ 178

When the Habsburg Empire fell to pieces, therefore, several countries with very different economic structures emerged. Austria and Czechoslovakia were mainly industrial countries while the others were predominantly agricultural. Weakened by four years of war, each of these new states was faced with a major problem of adjustment to an entirely different political and economic environment. Let us see how Austria set out to meet this problem. 600

¹ [CP. cat. 116, p. 113 -- ANALYST]

NOTES TO CHAPTER I

800

1. In 1930, i.e. exclusive of the Saar territory.

2. Figures for 1937.

3. With a production of 220,000 metric tons of apples in 1935, it was estimated that Austria took the seventh place in world production of apples. This figure, like most of the other production figures in this section, is based on *Raw Materials and Foodstuffs*, League of Nations (1939).

4. The percentage figures of world output are given because they are to some extent more illuminating than the absolute figures. Here, for what they are worth, are some percentage figures for Austria, to facilitate comparisons:

Area: 0.06 per cent of the total land area of the world

Population: 0.33 per cent of world population

Imports: 0.99 per cent of world imports } in 1937.

Exports: 0.88 per cent of world exports }

Source: *Statistical Year-Book of the League of Nations*, 1938-9.

5. This represents 0.7 per cent of the estimated world total. (*Statistical Year-Book of the League of Nations* 1938-9.) Of the 2,680 million kW.h. 2,265 million kW.h. were generated by hydraulic plants and only 415 million kW.h. by thermal plants. In Germany, in the same year out of a total production of 42,487 million kW.h. only 6,835 million kW.h. were produced by hydraulic plants.

6. From Gustav Gratz and Richard Schüller, *Der Wirtschaftliche Zusammenbruch Österreich-Ungarn's* (Vienna, 1930), pp. 29, 35.

7. Since 1867 the Habsburg Monarchy consisted of two separate administrative parts, the Austrian imperial lands and the lands of the Hungarian Crown. Austria in this section refers to the former part, which included parts of present-day Czechoslovakia, Italy, Yugoslavia, and Poland. In 1910 this part contained about 28 million inhabitants.

8. Colin Clark, *Conditions of Economic Progress*, p. 200.

INTRODUCTION

9. This intermediate position of Austria-Hungary is clearly shown if we look at the national income produced per head of working population in 1913, in international units (an international unit is defined as the amount of goods and services which one dollar would purchase in the United States, taking the average of the period from 1925 to 1934). 000

Great Britain	966	Austria-Hungary	352
Germany	764	Austria	452
Switzerland	655	Hungary	220
France	629	Italy	328
		Russia	306

From Antonin Basch, *The Danube Basin and the German Economic Sphere* (London, 1944), p. 6 (based on Colin Clark, op. cit.).

CHAPTER II

THE BIRTH OF A NEW REPUBLIC: EARLY DIFFICULTIES

AUSTRIA'S EXHAUSTION AFTER THE GREAT WAR

727 FROM the moment of birth of the new Austrian Republic, on the 12th November, 1918, it was clear that this small country, descendant of the old 50 million Empire, was faced with a colossal task of economic and political readjustment. But this was not all. By 1918 the old Monarchy had ceased, in every sense, to be a "going concern". This rendered the resumption of normal economic life particularly formidable. For in addition to the loss of capital and of human life invariably associated with war, the cumbersome working of the Habsburg bureaucratic machine, the antagonism of the suppressed minorities, and above all the ruthless military and economic exploitation of the half-hearted Austrian war partner by the "efficient" German war machine, had all exhausted the entire economic life of Austria.

722 It had become clear, as early as 1916, that the Empire was unprepared for a long war on two fronts and unable to cope with the growing difficulties of internal inefficiency and of the blockade. By 1917 the economic and military position was so serious as to prompt the Emperor Karl to explore the prospects of a separate peace. These attempts were however quickly frustrated by the then all-powerful Germans.

722 Shortages now appeared in every field. Owing to the
433 dearth of raw materials, the indiscriminate call-up policy

THE BIRTH OF A NEW REPUBLIC

of the first war years, and the growing anti-war feeling of the population, production fell to utterly inadequate levels. By 1917, the yield of the wheat harvest had fallen to 47 per cent of the 1913 level, rye to 43 per cent, barley to 29 per cent, oats to 25 per cent, potatoes to 51 per cent (in 1916), and sugar beet to 43 per cent. There were similar reductions in the output of practically all agricultural products, with the one notable exception of turnips, whose output increased to 213 per cent over the same period.

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433

There is no reliable index for industrial output as a whole during that period, but figures for certain specific products may serve to illustrate the general trend. Between 1913 and 1917 the production of sugar fell to 43 per cent; of beer, to 7 per cent; of margarine, to 6 per cent. While the output of cast iron rose to 189 per cent and of the number of locomotives built to 170 per cent that of pig iron fell to 64 per cent. In textiles, the production of raw silk fell to 53 per cent and the amount of wool consumed to 20 per cent. Paper production fell to 47 per cent.

In view of this catastrophic fall in production (particularly in essentials) the living conditions of the population deteriorated rapidly. Rations were constantly reduced, and even then they were not always obtainable. Universal malnutrition and actual famine conditions in some areas resulted in a great increase in disease and mortality. Clothing was defective and inadequate. Thousands of families lived in cold, dark rooms in the winter of 1917-18. Nor were the soldiers any better off. Not only was there a serious shortage of munitions: even those who were fighting under the most adverse conditions on the eastern front were short of food and clothing. One soldier might have a jacket but no shirt, the other a shirt but no jacket. Sawdust was added to the flour in order to make rations go

722

AUSTRIA'S ECONOMIC DEVELOPMENT

722 further. There were cases when soldiers "deserted" from their training barracks to the front line because there rations were at least somewhat larger.

727 When finally peace came to the war-weary country,
453 economic conditions, instead of improving, actually became worse. The economy was now completely disrupted, mainly because the new Austria was suddenly cut off from all normal sources of supply. Austria had habitually had an import surplus with the other parts of the Empire. Now these channels of supply were almost hermetically closed through the newly erected national frontiers. The new countries had their own serious problems of reconstruction and were of course unwilling to export important raw materials except on a strict barter basis. But in those days there was pitifully little that Austria could offer in return.

727 The result was that everything was short—food, coal, raw materials—and many sections of economic life came practically to a standstill. The position of the population became worse; in Vienna, particularly, conditions were desperate. Not only were the usual supplies from Hungary and Bohemia no longer forthcoming; the rural provinces of Austria proper, too, withheld their produce so as to cover their own shortages. Also, war-requisitioning and the lack of industrial goods had made the peasants suspicious and hostile towards the capital. The food situation in Vienna quickly became hopeless. From August to December, 1919, the maximum obtainable per day on the bread and flour ration was 100 to 170 grammes of flour. Milk supplies (which had amounted to 900,000 litres daily before the war) dropped to as little as 30,000 litres. Even infants and invalids had to go short of milk. After more than three years of hard work and malnutrition these shortages could not but have the most damaging effects on

THE BIRTH OF A NEW REPUBLIC

health. The death-rate soared. A large number of people were carried off by the influenza epidemic of 1919. In the same year, the mortality among Viennese schoolchildren was 60 per cent higher than in 1913. Deaths from tuberculosis for young people between the ages of 16 to 21 years rose by 160 per cent. 727

Outside help was obviously needed if serious famine conditions were to be averted. Private philanthropic organizations, particularly in the United States and Great Britain, at once organized relief measures, and the Netherlands, Scandinavian countries, and Switzerland offered hospitality to Austrian children on a generous scale. But this was merely a drop in the ocean. A problem of this order could not be solved by private charity. The hopes of the Government therefore turned on the Hoover Mission with its considerable command of food supplies. 727
457
In December, 1918, the Austrian Government succeeded in getting an advance of 4,000 tons of cereals; though in the circumstances this was entirely inadequate. Negotiations were then begun; but in spite of the catastrophic conditions in Vienna they were protracted owing to Austria's inability to procure the required means of payment; and also because Mr. Hoover's food policy was partly used as a means of influencing the internal politics of the destitute countries. In February, 1919, at last, relief credits were granted to Austria to the tune of \$24 million from the United States and \$16 million from Great Britain, France, and Italy (who in turn borrowed this money from the United States), and from the middle of March onwards, 1,000 tons of foodstuffs were delivered daily. In April this amount was increased to 1,800 tons daily.

The available credits soon proved inadequate and additional relief credits were provided by the same group

17
2 [in 1918 1919 -- ANALYST]

AUSTRIA'S ECONOMIC DEVELOPMENT

457 of countries and also by the neutral states. Altogether,
727 between 1919 and 1921, relief credits to the value of about £27 million were given to Austria, of which £9 million came from Great Britain, the largest single lender. These relief credits were secured by a mortgage, with priority over all other charges, on Austrian State property.

433 But while the relief of the food situation was the most
727 pressing need, the plight of the industrial sector was no less serious. All coal supplies from Bohemia and Upper Silesia were, at first, cut off. The domestic coal ration was 15 kg. per family per week, and even this was not always available. On the main line from Vienna to Salzburg there was only one slow train per day. It stopped at every station, and its time of arrival was anyone's guess as the breakdown of the old rolling-stock and the lack of coal caused frequent and lengthy hold-ups. Often the travellers had to walk beside the train because the locomotive could not pull the load over a steep hill. Of the blast furnaces in Upper Styria only one could be kept working; and that at a time when there was an enormous need for all basic materials. In fact, practically all important raw materials were in short supply. In consequence production had to be cut down or stopped altogether.

[457] The amount of supplies from abroad was determined by so-called "compensation treaties": barter agreements on a strictly quantitative exchange basis. There were further complications. For instance, until the rolling stock of the old Monarchy was finally divided up among the various "Succession States", all goods had to be unloaded at each frontier station, as no state would allow its waggons to leave their own territory. This tended to raise costs and to cause greater delay, reducing still further the already meagre flow of goods.

It is, therefore, not surprising that in its initial stages

THE BIRTH OF A NEW REPUBLIC

production was in a chaotic state and could not absorb the men who came back from the army and from the munition industries. Unemployment, which had been at a level of about 46,000 in December, 1918, rose quickly to a peak of 186,000 (131,500 in Vienna) in May, 1919, ~~at~~ the very time when the Western democracies enjoyed a short-lived post-war boom. After that, unemployment decreased steadily until it reached its lowest level in November, 1921, when there were 8,709 unemployed on the register.

THE INFLATION

The extent of Austria's economic exhaustion after the last war has been deliberately described at some length so as to indicate the level from which reconstruction had to start. No doubt, it was a tremendous job. But, with the relief credits to help out in the first period of distress, it was surely not beyond the strength of the Austrian people to build up a working economy. The tens of thousands of workers who struck work in January, 1918, in order to finish the war, the soldiers who returned disgusted with the war and the old régime, the peasants who had more than enough of the constant military requisitioning, all combined to turn out the Emperor, practically without any bloodshed; and they now looked confidently to the new Republic to lay the foundations for a new life.

There was much enthusiasm here that could have been harnessed to a great crusade for the rebuilding of the nation's life. But it was the tragedy of the situation that the statesmen of the day, those of the right and those of the left alike, completely lacked the required conception of leadership. Instead of stimulating the patriotic and social aspirations of the masses and guiding them in the difficult tasks of reconstruction, the general attitude of the leading politicians, reared in a 50-million empire, was to profess

AUSTRIA'S ECONOMIC DEVELOPMENT

186
665 complete disbelief in Austria's ability to exist as an independent entity. The mistaken policy towards the national minorities in the past decades (mistakes that were shared by the German-speaking politicians of the right and the left alike) ruled out any close union with the Slav neighbours. The incorporation of Austria into Germany was therefore advocated as the only practicable solution.

"Our task was", wrote Dr. Otto Bauer, the leading figure in the Social Democratic Party and the Foreign Minister of the 1919 coalition government, "to convince the statesmen of the Entente that German Austria, if left to herself, was not capable of existence; that any attempt to form a confederation of the Succession States must be baffled by the opposition of Czechoslovakia and Yugoslavia; that union with Germany was therefore the only possible solution, and the only means of averting the complete economic collapse of German Austria and the violent social disorders and grave dangers of war which must ensue."

But the idea was not really popular.

"At the same time we had to carry on propaganda among our own people. If our appeal to the statesmen of the Entente was not to remain barren we must be able to show them that our struggle for union was based on the united conviction of the whole German Austrian people."

Propaganda of this kind was obviously not designed to rouse the spirits and unleash the energies of an exhausted population. A strong and democratic patriotism, which enabled the neighbouring Czechoslovakia—though admittedly under more favourable conditions—to re-establish her economic life with very little outside help, could hardly flourish in such an atmosphere of defeatism. How could one give allegiance to a country that could not possibly exist? There was much local patriotism—for

AUSTRIA'S ECONOMIC DEVELOPMENT

458 the disruption of production and foreign trade caused a
435 continued and increasing shortage of goods. Though
rationing of essentials was not immediately abolished, war-
time controls were relaxed and the rise in prices was
accelerated. This rise in prices, together with the dearth
of so many industrial goods, induced many peasants to
resort to a system of barter. This further diminished the
flow of goods to the market, and with it the value of
money.

At the same time, the socialist revolutions in neighbour-
ing Hungary and Bavaria and the revolutionary tendencies
among the Austrian people led to a mass transfer of
capital to other countries. The various controls of the
post-war period, designed to prevent capital movements
and to preserve the precious foreign exchange for essential
imports, were largely ineffective and the conspiracy
against the Crown (the Austrian currency unit at that
time) continued openly and in the numerous black
markets. Consequently, the dollar exchange which—owing
to the blockade and the practical cessation of international
trade—had risen from 4.95 Crowns in July, 1914, to only
14.33 Crowns in November, 1918, began to soar rapidly
(see the ~~table~~ on p. 25). With the dependence on
imported raw materials and foodstuffs this quickly led to
652 further price increases. The governments of the day
458 should of course have adopted drastic measures to keep
935 the inflationary pressure in check. In fact, their policy
intensified the inflation. Expenditure continued to run at
a high level. Food subsidies, for instance, had to be con-
tinued in view of the rise in food prices. These subsidies
were often quite considerable; in December, 1921, for
instance, they accounted for more than half the budget
deficit. Then there was the large item of civil service
salaries. Not only did Vienna inherit the central adminis-

THE BIRTH OF A NEW REPUBLIC

trative staff of a 50 million empire—and a very bureaucratic empire at that—but this staff had been considerably swollen in war time and was further enlarged by the absorption of all those Austrian officials who after the war returned from their posts in the “Succession States”. To reduce this number of officials was one of the problems of readjustment which Austria had to solve; and in fact a drastic reduction was carried out later. But little was done in the first post-war period and salaries—inadequate as they were with the increasing depreciation of the Crown—were a heavy drag on the Exchequer. In other lines, too, expenditure continued to run in an unplanned and uncoordinated manner. This was perhaps an effect as much as a cause of the inflation; but it was also symptomatic of the Government’s fatalism; for they considered all this as the natural expression of Austria’s doom.

The Government’s weakness also showed itself on the revenue side. Expenditure, however carefully planned, is bound to be high in any post-war period. The social and economic upheavals of modern wars call for a high degree of State control and interference so as to facilitate an orderly return to a peace-time economy. But if inflation is to be avoided this high level of expenditure must be matched by an equally high level of revenue—at any rate under conditions of more or less full employment. This, however, the governments completely failed to achieve. The years 1919 to 1922 were years of continuous budget deficits, as is shown by the table on page 24.

The failure of revenue to come anywhere near expenditure was due to a number of reasons. First, the rapid depreciation of the crown implied that every time lag between assessment and payment caused a reduction in the real value of the tax. This opened the way to tax evasion on a grand scale; for even the incidence of stiffer nominal rates

AUSTRIA'S ECONOMIC DEVELOPMENT

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Budgets	Receipts	Expenditure (Mill. of Crowns)	Deficit	Deficit in per cent of Expenditure
Jan. 1- June 30, 1919	1,339	4,034	2,704	67
July 1, 1919- June 30, 1920	6,295	16,873	10,579	63
July 1, 1920- June 30, 1921	29,483	70,601	41,117	58
July 1- Dec. 31, 1921	24,075	49,496	25,421	51
Jan. 1- Dec. 31, 1922	209,763	347,533	137,770	40

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of taxation could be avoided by simply delaying payment for a little while. It was not until much later that the Government introduced "tax units" of a stable value to put a stop to this. Secondly, stronger measures, such as a capital levy and a compulsory loan, which were intended to bring some relief in this extraordinary emergency, were greatly watered down through endless delay and the strong pressure from vested interest. By the time they were finally introduced they were in fact quite ineffective. Thirdly, the Government was slow in adjusting the prices of State-owned enterprises to the rapidly rising price level, and considerable losses were incurred as a result.

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Expenditure thus rose with rising prices while receipts lagged behind. The gap had to be filled. A loan was out of the question for nobody was willing to lend money which would probably be worthless by the time of repayment. So the printing press, which had proved a convenient servant in war-time, had to continue its work. More and more notes were printed, prices went up and with it the State's expenditure and deficit. The vicious spiral was set in motion.

The following table indicates the course of the inflation.

THE BIRTH OF A NEW REPUBLIC

INDEX OF NOTE CIRCULATION, PRICE INDEX, AND
DOLLAR EXCHANGE RATE, 1919-22458
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	1919			1920		
	Index of Note Circn.	Price Index	Dollar Rate in Vienna	Index of Note Circn.	Price Index	Dollar Rate in Vienna
	1914=1					
January	—	28·37	16·17	24·20	49·22	176
February	—	—	17·91	26·55	—	268
March	1·66	—	21·84	28·97	—	250
April	9·57	—	26·65	30·84	58·42	200
May	11·18	—	23·25	30·14	—	204
June	13·07	—	27·00	31·98	—	149
July	15·15	31·02	31·13	34·42	63·76	145
August	16·83	—	38·00	37·29	—	181
September	18·52	—	46·83	40·67	—	241
October	19·71	—	69·58	45·44	69·60	278
November	21·90	—	99·50	51·04	—	426
December	22·41	—	135·00	56·92	—	533
	1921			1922		
January	61	92	676	365	830	6,875
February	70	100	716	465	980	7,725
March	77	112	730	532	989	6,750
April	84	111	655	616	1,089	7,625
May	89	119	604	690	1,364	8,375
June	93	119	632	815	2,339	15,450
July	100	125	738	1,166	3,308	22,900
August	109	124	1,142	1,667	7,422	51,650
September	119	151	1,189	3,034	14,153	75,050
October	148	238	3,000	4,908	12,965	73,525
November	190	374	5,850	5,959	12,158	73,450
December	265	661	7,200	6,957	11,737	71,300

Source: J. van Walré de Bordes, *The Austrian Crown*, pp. 48-50, 82-3, 115-35.

AUSTRIA'S ECONOMIC DEVELOPMENT

458 What were the effects of the inflation on Austria's economic life? It is impossible to give a comprehensive answer because an inflation of these dimensions affects practically every aspect of society. Nevertheless, some of its more important consequences must be indicated at this point.

Perhaps the most fatal effects were those on wealth and income. Wealth in money-form lost its value almost overnight. This was particularly hard on the small saver who had not the same knowledge or opportunities as the big investor or large company who quickly learned how to turn their liquid money into foreign exchange or into goods. By 1922, of course, practically everybody had realized the implications of a rapidly depreciating currency; even schoolchildren hoarded a few Swiss francs, dollars, or Czechoslovak Crowns which they had obtained in one way or other. But by that time the greater part of the savings of the middle and working classes, accumulated over decades, had melted to nothing.

458 The distribution of income, too, was greatly affected.
434 Inflation is essentially a method of taxation which leaves the actual money in the hands of the income receiver but reduces its purchasing power. It is, however, a form of taxation that falls very unevenly on different groups of the population. Some find their income reduced to a starvation level while others find their real income considerably increased. Huge profits were made as prices rose rapidly while costs lagged behind (at least before 1922 when most costs and particularly wages were more rigid than the price level). Those firms which grasped the essence of inflation at an early stage and turned these profits at once into plant, stocks of goods, or foreign exchange, emerged in greater strength at the end. Small firms, on the other hand, which had neither the financial experience nor the

THE BIRTH OF A NEW REPUBLIC

same opportunities of quick and cheap buying, found their receipts insufficient to replace their working capital. The tendency towards concentration was thus greatly accelerated in this period. The larger concerns and the banks especially were able to expand at the expense of the smaller enterprises.

Although money wages rose considerably during the inflation, they lagged greatly behind the cost of living. This was true at least until 1922 when both prices and wages came to be fixed in terms of dollars (and thus rose automatically with every depreciation of the Crown). The following wage indices for certain categories of labour show the deterioration of real wages:

INDEX NUMBERS OF WEEKLY WAGE RATES OF WORKERS
IN VARIOUS OCCUPATIONS IN VIENNA
(1914 = 1)

	Brick-layers	Printers	Joiners	Metal Workers	Tailors	Cotton Spinners	Cost-of-Living Index
1921.							
Dec.	541	385	503	394	338	424	661
1922.							
Mar.	858	617	603	585	666	627	989
June	1,180	935	1,131	810	915	1,477	2,339
July	2,030	1,280	1,290	1,546	1,419	1,419	3,308
Aug.	2,910	3,270	3,019	2,162	4,481	4,675	7,422
Sept.	8,980	6,060	6,570	6,603	5,377	6,358	14,153
Oct.	11,600	7,270	8,333	8,637	7,618	7,714	12,965
Nov.	11,600	7,270	8,333	8,637	7,618	7,188	12,158
Dec.	11,300	7,270	7,666	7,786	7,085	6,837	11,737

Salary earners (such as clerks, teachers, and civil servants) were even worse off than wage earners as their incomes were revised upwards only at rare intervals.

Worst of all, of course, was the position of old-age

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1 [CP CAT. 116, P. 35 -- ANALYST]

AUSTRIA'S ECONOMIC DEVELOPMENT

458 pensioners and others dependent on small fixed incomes.
 745 These people were reduced to abject poverty; they were compelled to sell most of their belongings and to turn to public assistance. These reductions in income occurred side by side with the creation of a small class of new rich—the inflation profiteers who had been able, through skilful buying and selling, to amass considerable wealth.

458 But there was also a brighter side to the picture. In the
 433 first stage of inflation, at least, the rising price level and
 464 the flow of new money stimulated industry and quickly raised production above the stagnating post-war level. The unemployed, whose number had greatly risen after the end of the war, were almost completely absorbed into work:

NUMBER OF UNEMPLOYED RECEIVING RELIEF

	1919	1920	1921	1922
February	162,104	69,427	16,217	33,554
May	186,030	45,883	9,518	44,281
August	133,362	23,970	11,702	30,967
November	—	14,733	8,709	55,008

458 Production increased in almost every field. Agriculture,
 483 for instance, largely regained its pre-war productivity in this period; and agricultural production was also increased by an extension of the area under cultivation.

YIELD PER HECTARE IN QUINTALS

	1913	1919	1923
Wheat	14·8	9·3	12·6
Rye	14·7	8·0	10·8
Barley	13·9	8·8	12·7
Oats	13·5	8·0	11·6
Maize	16·3	12·7	15·1

THE BIRTH OF A NEW REPUBLIC

Sugar production rose from about 57,000 quintals in 1919-20 to about 138,000 in 1920-1 and to 160,000 in 1921-2. Production of chemical pulp increased from 75,000 tons in 1919 to 102,000 in 1921 and 128,000 in 1922, while exports increased from 17,000 tons in 1921 to 46,000 tons in 1922. Paper production, which was 92,000 tons in 1919 and 94,000 tons in 1920, went up to 128,000 tons in 1921 and to 151,000 tons in 1922. 458
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The industrial situation was further relieved by the crisis which followed the post-war boom in western Europe and the United States. Raw-materials which had been in very short supply in the immediate post-war period were now easily obtainable and the fall in world prices to some extent counteracted the rise in Austrian import prices due to the rapid rise in the value of foreign exchange. Imports of vital raw materials increased quickly. 458
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There is then no doubt that the inflation accelerated the impending recovery. At the same time the extent of the inflation and the resulting distortion of the price structure prevented the reconstruction of industry on new lines. With prices and costs rising almost hourly, speculation became far more important and profitable than the careful consideration of technical improvements and of long-term development. The proper timing of buying and selling—be it labour, goods, or foreign exchange—became the main pre-occupation of business. Perhaps the main thing after 1919 was to get the productive mechanism going in one way or other. This was largely achieved in the inflationary period. But the process of readjustment was still to come.

Inflations normally stimulate exports and discourage imports. For the extraordinary demand for foreign exchange, the "flight from the currency" drives up the exchange rate at a quicker rate than the domestic price level so that exports become cheap and imports expensive.

AUSTRIA'S ECONOMIC DEVELOPMENT

458 This was precisely what happened in Austria. But while
433 exports increased more than imports the balance of trade
439 continued to be unfavourable.¹⁰ $\frac{2}{\wedge}$

This was partly due to the fact that production in Austria was as yet insufficient to provide exports on any scale; partly because Austrian exports have a high "import content" so that every increase in exports involves increased imports. Also, the fall in world prices in 1920 tended to reduce the margin between the Austrian and the world price level.

Unfortunately, we have no statistics on invisible exports. But there is every indication that these exports increased considerably. Vienna soon regained her importance as a transit centre: by 1920, the weight of goods passing through the great municipal warehouses had already increased over three-times as compared with 1913. The Viennese banks again played an important part in the "Succession States" and the Balkans, and the low value of the Crown attracted an increasing number of foreigners to Austria. The number of foreigners arriving at hotels in Vienna rose from about 230,000 in 1920 to about 330,000 in 1922. On all these scores a considerable income must have accrued to Austria which helped to fill at least part of the gap on the balance of trade.¹¹ $\frac{2}{\wedge}$

458 But the low value of the Crown and the insatiable
471 hunger for foreign exchange did not only stimulate current exports. It also led to the sale of capital. Real estate, houses, and industrial shares were sold to foreigners and part of Austria's industry thus came under foreign control. It was in this period that a decisive parcel of shares of the Alpine Montan Gesellschaft, Austria's most important heavy industrial concern, passed into the hands of a group of Italian capitalists from where they wandered on until they became the property of one of the firms belonging to

THE BIRTH OF A NEW REPUBLIC

the German Steel Trust. We shall see later what ominous political and economic consequences flowed from this transfer of control. •

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Summing up, it may be said that the years of inflation brought a marked revival in the sphere of production and foreign trade; but that little was accomplished in the way of urgently needed structural adjustment.

One further result of the inflation should be mentioned. In Austria, as elsewhere, the internal National Debt was practically wiped out. No doubt this put a heavy burden on some classes of the population, particularly the small saver. No doubt, the inflation involved a heavier burden of external debt than would otherwise have been the case. But the disappearance of the National Debt undoubtedly relieves a government of some headaches when it comes to the point of drawing up a budget. And to balance the budget was one of the main tasks before the Government if the inflation was to be brought to an end.

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THE STABILIZATION OF THE CURRENCY

We have seen that the Austrian Government pinned all its hopes of overcoming the monetary chaos on foreign help. A foreign loan would both help to balance the Government's budget and to stabilize the foreign exchange rate, the barometer of the country's confidence in the Crown.

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Negotiations for such a loan had started as early as 1920; but to secure a loan was by no means a simple matter. The allied governments expected to receive reparations from Austria, not to make loans to her. They pointed to the relief credits they had already granted (but which had of course been used up for "unproductive" relief) and were unwilling to make any further advances. Private investors, on the other hand, were unwilling to

AUSTRIA'S ECONOMIC DEVELOPMENT

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652 lend money to a country which constantly stressed the lack of a sound basis for its economic future. Only first-class guarantees would induce capital to come to Austria. The Austrian Government, therefore, proposed to guarantee such a loan by pledging some of its major sources of revenue (customs, tobacco monopoly, State forests) to its service. Unfortunately, however, all properties and revenues of the Austrian State had already been charged with guaranteeing reparations, occupation costs, and relief credits. Negotiations were therefore begun with a view to securing the agreement of all the states concerned (eighteen in number), to raise their mortgage on Austrian assets. By the time the necessary agreement had been secured—which was not until about a year later—the position had deteriorated to such an extent that the original financial plan was no longer adequate.

Finally the League of Nations decided to step in. In October, 1922, the famous Geneva Protocols were signed. The first Protocol, signed by Great Britain, France, Italy, Czechoslovakia, and Austria, re-affirmed the political and economic independence and territorial integrity of Austria. In the second Protocol the British, French, Italian, and Czechoslovak governments each guaranteed a portion of an Austrian loan of 650 million gold Crowns. In the third Protocol the Austrian Government promised to put its own house in order, to balance its budget, to stop borrowing from the Bank of issue, and to create a new and independent bank of issue, the Austrian National Bank.

The Geneva Protocols had a remarkable effect on the monetary situation. The mere fact that promising negotiations were in progress led to a return of confidence and put a stop to the panic flight from the Crown. The dollar exchange rate reached its highest point in August, 1922, when it stood at 83,600 Crowns. After that there was a

THE BIRTH OF A NEW REPUBLIC

slight fall. Retail prices ceased to rise in September, 1922; after that they merely fluctuated in the normal way. The return of confidence in the currency enabled the Government to raise loans from the public once more. Between November, 1922, and January, 1923 (long before the raising of the foreign loans), 80 million gold Crowns were subscribed in domestic loans. In the summer of 1923—after some short-term credits had been granted to Austria—the guaranteed long-term loan was at last launched in the various Allied and neutral countries. The subscription was a complete success. The reorganization of Austria's finances could at last be taken in hand. Careful economy, the cessation of borrowing from the bank of issue, and the increased yield from taxation all helped to reduce the deficit.

In November, 1923, the budget for the first time showed a surplus. The operation had been clearly successful. At that time most of the other European countries, and particularly Germany, were in the throes of inflationary catastrophes which surpassed anything that had happened in Austria. In 1923 and 1924 the Austrian Crown¹² was indeed one of the most stable currencies in Europe; a fact which earned it the nickname of the "Alpine dollar". The way was now open for the more fundamental tasks of readjustment and reconstruction. Nevertheless, a more courageous policy might have achieved the same results without the aid of so much foreign borrowing, whose burden could not help but make itself unpleasantly felt at a later stage.

2 [CA. CATEGORY 14, P. 35. -- ANALYST]

NOTES TO CHAPTER II

000 1. Wilhelm Winkler, *Die Einkommensverschiebungen in Österreich während des Weltkrieges* (Wien, 1930), p. 45.

2. Ibid., pp. 50-2.

3. See J. van Walré de Bordes, *The Austrian Crown*, p. 11. This book is also the source of most of the other material in this section. Austrian official unemployment figures refer only to those unemployed who receive relief. The actual numbers are therefore probably considerably greater than those given in the text.

4. *Die Österreichische Revolution* (Vienna, 1923), p. 147.

5. In the Constitutional National Assembly of February, 1919, only 25 out of 159 seats were occupied by various Pan-German parties. By October, 1923, their number had fallen to 16 out of 165. (See de Bordes, op. cit., p. 16.)

6. Quoted in "Austria between the Two Wars", in *The Bulletin of International News*, Vol. XXI, No. 5, p. 173.

7. A detailed description of the more important aspects of this phase can be found in de Bordes, op. cit. The figures in the following paragraphs are, if not otherwise stated, all taken from this study. References to the number of the pages have been omitted to prevent the text from being overloaded with footnote-indices.

Readers who are particularly interested in the wider economic and social effects of an inflation, should turn to *The Economics of Inflation* by C. Bresciani-Turroni, which, though dealing with the inflation in Germany, describes very fully the characteristic phenomena of every "run-away inflation".

8. This is the cost-of-living index calculated by the Mixed Commission of employers and employees (see de Bordes, op. cit., pp. 78 ff.). It excludes housing which, owing to the strict enforcement of rent control, remained far less affected by the inflation than the prices of other goods and services. If housing is included, the cost-of-living index is always a number

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

THE BIRTH OF A NEW REPUBLIC

of points below the one used in the text (e.g. it is 13.26 for November, 1918). 600

9. *International Labour Review*, Vol. VII, No. 4, p. 595.

10.

	Imports: Weight in Quintals (or number in pieces)	Exports: Weight in Quintals (or number in pieces)	Surplus of Imports (in mill. gold Crowns)
1920	61,176,232 (1,088,408)	13,752,433 (1,158,865)	769
1921	82,282,490 (2,088,503)	15,465,323 (1,719,376)	795
1922	74,487,374 (1,668,897)	21,157,603 (2,061,326)	544

11. Professor Rist, of the Faculty of Law in Paris, estimated the credit balance on invisible items at between 500 to 600 million gold Crowns in 1922. (See de Bordes, op. cit., pp. 186-7.)

12. The Crown remained the currency unit till 1925, when a new unit, the schilling (subdivided into 100 groschen) was introduced. The rate of conversion was 1 schilling = 10,000 Crowns. Thus the last remnant of the inflation, the astronomical figures, disappeared.

CHAPTER III

READJUSTMENT AND CONSOLIDATION

READJUSTMENT

458 IN spite of certain improvements Austria had failed, during the period of inflation, to adapt its economic structure to the new environment. In fact, the inflation tended to add to these underlying difficulties. The easy flow of money and the enormous speculation in prices and foreign exchanges, for instance, greatly increased the number of commercial establishments of all types. It was clear that these mushroom growths could not survive in the long run.

But these, and other necessary adjustments, were hampered by the absence of any clear economic policy which could have minimized the frictions involved. There were of course a large number of *ad hoc* measures to help here and to fill a gap there. But there was never a consistent and conscious approach to the problem as a whole. If, in spite of this, considerable progress was, in fact, achieved in the 'twenties, this can only be regarded as evidence of the vitality which Austrian economic life had preserved through all the difficult years.

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464 The immediate result of the stabilization was indeed to cause a severe crisis. Industry had been geared to the expectation of quickly rising prices, encouraging many speculative and unsound developments. These had now to be liquidated and a general process of economy and rationalization set in which caused a great increase in unemployment.

READJUSTMENT AND CONSOLIDATION

UNEMPLOYMENT¹

(ooo's omitted)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1923	161	167	152	132	107	92	87	83	78	75	79	98
1924	119	125	106	82	68	63	66	74	77	89	113	154

The situation was aggravated particularly by the shortage of capital for industry. An enormous speculative boom swept the stock exchange in 1923 and early in 1924. Industrial shares which had been neglected in the uncertain period of inflation were now eagerly taken up and funds were increasingly drawn into the financial sphere. Since private saving had fallen to negligible levels the rate of interest charged to industry was excessive. Interest rates on first-class overdrafts reached the absurdly high level of 22 per cent in 1924, and even in 1925 they still stood at 15½ per cent. The cost of credit was also raised by the monopolistic policy of the bank cartel which fixed the rates and left a margin of 7½ to 9½ per cent between rates paid and charged. As Austrian industry was largely owned and controlled by the banks, and also dependent on them for short-term credit, industrial interests were often subordinated to "orthodox" financial considerations.

Some relief was afforded by foreign loans. These were attracted by the high rates of interest and were usually obtainable on more favourable terms. The main drawback on this score was that—apart from loans to local authorities, public utilities and very big firms—it was only short-term credits which were offered, while what was needed at that time were long-term credits for industry. Indeed, once the monetary systems of the central and eastern European states were stabilized the political interest in their reconstruction ceased in the Western

READJUSTMENT AND CONSOLIDATION

cent in textiles, and 3 per cent in the chemical industry. 464
Owing to seasonal factors the percentage was highest in the building trade (35 per cent) and in the hotel trade (22 per cent). But the permanent changes that had taken place since the war and the inflation were reflected in the high percentage of unemployment in the declining war industries ("metals and machinery"), where it reached 30 per cent. In some of the industries which formerly produced for a home market but which were now up against high tariff walls (e.g. clothing 19 per cent, pottery, glass, etc., 15 per cent, leather and hides 12 per cent), in "commerce, transport and traffic" (17 per cent) and among the clerks and professions (10 per cent). This high level of unemployment among the "black-coated" workers and the middle class was due to the inevitable contraction of the State apparatus and of those banking and commercial activities which had flourished so much during the inflation period. The failure to tackle these structural problems courageously contributed greatly to the slow recovery of the home market and to the persistence of unemployment even in the more prosperous years.

One of the most important economic effects of the break-up of the old Empire was the increased dependence on foreign trade. The Empire had to a large extent been self-sufficient and Austria had obtained its foodstuffs and raw-materials from other parts of the Monarchy. These goods had now to be imported from separate economic units and great efforts were required to increase exports, especially of manufactured goods. The structure of foreign trade in that period is shown by the figures on page 40. 439

With the return of stable conditions and the increase in productivity, both imports and exports increased rapidly. Imports rose from about 1,800 million gold Crowns in

AUSTRIA'S ECONOMIC DEVELOPMENT

457 world, and the field was left open to private investors who failed to appreciate the long-term needs of that area.

433 But in spite of the heavy unemployment, production continued to increase; though there were some setbacks in the capital-goods industries which had benefited most from the inflation. The following figures may serve to illustrate the trends of this period (no general index of production is available for these years):

Production	Unit	1922	1923	1924
Coal, lignite	Thousand tons	3,136	2,659	2,777
Steel	" "	481	499	370
Paper	Waggons	15,108	15,285	17,211
Wheat	Thousand tons	202	242	231
Rye	" "	345	402	411
Potatoes	" "	1,398	1,426	1,647
Sugar	Quintals	244,680	472,555	750,102
Merchandise carried by railway	Thousand tons	—	5,493	6,174

The general rise in production was mainly due to the installation of modern plant during and after the inflation, to the resumption of more careful costing and accounting practices, and to a considerable rise in output per head. By 1925, total output reached about 80 per cent of the pre-war level.²

464 The overall figures of unemployment conceal, however, the very uneven incidence of unemployment in the various industries: a consequence of the structural changes then taking place. In February, 1925, when unemployment had reached the high level of 193,000, the percentage of unemployed was fairly low in the quickly expanding light and consumer goods industries—8 per cent in the food processing trades, 4 per cent in the paper industry, 6 per

AUSTRIA'S ECONOMIC DEVELOPMENT

AUSTRIA'S FOREIGN TRADE IN 1924
(Million Gold Crowns)

439

	Imports	Per cent	Exports	Per cent
Animals	167	6.96	11	0.87
Food and drink	648	27.06	32	2.33
Fuel	198	8.27	2	0.146
Other raw materials	513	21.42	249	18.18
Manufactured goods	868	36.25	1,075	78.52
Total	2,394	100.00	1,369	100.00

1922 to 1,900 in 1923 and to 2,400 in 1924, while exports increased from 1,100 million gold Crowns to 1,120 and to 1,370. Most of the export industries were able to increase their sales abroad. But the adverse balance of trade remained uncomfortably high. In 1924 only 57 per cent of the imports were covered by exports. True, invisible items played an important part in Austria's balance of payments, and tourist traffic, transit trade, and financial services to Eastern Europe were all increasing in this period. Nevertheless, part of the deficit on the balance of trade had to be covered by the sale of securities, mainly to Czechoslovakia, and by short-term foreign credits, mainly from Britain and America.

To find greater opportunity for export, therefore, became a matter of urgent importance to Austria.

"The process of industrial re-adaptation", wrote Layton and Rist in their Report on Austria to the League in 1925, "is therefore not a matter of adjusting production to her home market. She must reorganize her industries for foreign trade. Whether she can find the necessary markets depends partly on the efficiency of her production. It depends far more, however, upon the tariff policy of the countries with which she must exchange her products."

40
3 [CA CATEGORY 116 P. 50 -- ANALYST]

READJUSTMENT AND CONSOLIDATION

Unfortunately, the tariff policy of the new Danubian states which should have offered the natural market for Austria's and Czechoslovakia's highly developed industrial capacity was by no means conducive to a high level of trade. In their very justifiable desire to industrialize their neglected and backward economies, these new governments increasingly adopted a policy of economic nationalism. They put up more and more insurmountable tariff walls which in the end harmed all the countries within the area and outside it and only benefited a few sectional interests.

Austria tried to meet this problem by increasingly directing her exports (and different types of exports) to other parts of the world. The following figures clearly illustrate this tendency:

DISTRIBUTION OF AUSTRIA'S EXPORTS IN 1922 AND 1924

To:	1922 %	1924 %
The Danube States *	42.1	36.8
Northern Central Europe †	23.9	23.0
Western Europe ‡	23.0	25.9
All other countries	11.0	14.3

* Czechoslovakia, Hungary, Yugoslavia, Roumania.

† Germany and Poland.

‡ United Kingdom, Belgium, Netherlands, France, Switzerland, Italy.

Attempts were also made to conclude special trade agreements. Negotiations for a preferential trade régime with Czechoslovakia in 1925 were wrecked on the rock of Italy's and Germany's objections. Germany even threatened trade reprisals. Austria also tried to stimulate trade by pursuing a very liberal tariff policy. While, by 1927,

AUSTRIA'S ECONOMIC DEVELOPMENT

439 tariffs had increased to 296 per cent of the 1913 level in Bulgaria, to 144 per cent in Yugoslavia, to 140 per cent in Roumania, and to 137 per cent in Czechoslovakia, the Austrian tariffs had actually fallen to 77 per cent of their pre-war level, a fall which, in continental Europe, was surpassed only in Sweden. But it was obvious that this policy could not be permanently maintained in face of high tariffs elsewhere. After the Geneva Conference in 1927 had failed to achieve tangible results with regard to the reduction of trade barriers, Austria too turned towards protectionism to reduce her dependence on a highly unstable world trade. The world preferred to learn the hard way.

361 What of the position of Vienna? When the new Austria,
631 with its 6½ million people, had to take over the economic and administrative centre of a 50-million empire, containing almost 30 per cent of the population of the new Republic, many people thought that this "huge head far too big for a small body" would prove an insoluble economic problem. Actually it soon turned out that the general process of readjustment, described above, also helped to solve this problem. First, it should be noted that while the percentage of the population living in the capital was unusually high, the percentage of the urban population was quite normal for an industrial country. It was smaller than, for instance, in Great Britain or Switzerland. The establishment of new commercial and government centres did, it is true, hit Vienna badly. The
[464] reduction in the number of civil servants, banking and commercial employees and the unemployment among lawyers, solicitors, etc., created a burden which was mainly concentrated on the capital.

366 But apart from this particular problem which was
368 slowly—all too slowly—mended, it soon became clear that

READJUSTMENT AND CONSOLIDATION

Vienna still had an important economic contribution to make to the country and to the world. Its unique geographic position at Europe's crossroads again attracted a large and growing volume of transit trade which helped to keep the commercial life of the city at a high level. Again, the long-standing knowledge which the Viennese financial institutions had acquired of the Balkan markets gave rise to economic activities and payments from foreign countries which helped to improve the balance of payments. Of still greater importance was the increased activity in the consumer goods and export industries to which Vienna, the main centre of the lighter industries, was particularly well suited. The introduction of a biennial fair made Vienna the main centre of the country's export trade and an important factor in Central and east European trade.

Last, but not least, the economic activities of the Viennese City Council helped considerably to re-establish and stimulate the economic life of the capital. A skilful financial policy had enabled the municipality to avoid a deficit even during the difficult post-war and inflationary years. Now that the position had become easier they embarked on a progressive programme of expenditure on social welfare, educational reform, and—most important from the economic point of view—on an extensive building programme. Building activity had practically come to a standstill during and after the war and the housing shortage was acute. Private building was discouraged by a strict Rent Restriction Act which protected the population from the wild profiteering in rents that would have otherwise occurred. In 1923 the municipality, which had already built 7,259 dwellings between 1919 and 1923, announced that they would build 25,000 new dwellings during the next five years. This was the

AUSTRIA'S ECONOMIC DEVELOPMENT

33/ beginning of a great housing programme which replaced
 362 slums by beautiful modern houses and attracted the atten-
 633 tion of experts from all over the world, and which revived
 the building trades and with it, a great number of related
 industries in Vienna and the rest of the country.

CONSOLIDATION

433 Once the currency was stabilized and more normal
 conditions established, the upward trend in industrial and
 agricultural production became more marked as well as
 more general. It now seemed as if the earlier economic
 problems of Austria would soon find their solution and
 that a sound basis for a new national economy would be
 formed. And this would have doubtless been true if the
 process of consolidation of that period had not come to
 an abrupt end in the world economic depression.

For progress was quite considerable. Industrial pro-
 duction increased quickly and at a rate which compares
 not unfavourably with development in other countries
 during the same period.

INDICES OF INDUSTRIAL PRODUCTION

(Average 1925-9 = 100)

	Austria	Germany	Czecho- slovakia	United Kingdom
1925	89	87	88	99
1926	89	87	86	76
1927	100	109	100	109
1928	110	108	111	104
1929	113	109	115	112

Two points should, however, be noted in this connection.
 Firstly, the increase in output was achieved not so much

READJUSTMENT AND CONSOLIDATION

by the absorption of the unemployed but rather by a widespread policy of rationalization. Secondly, from about 1927 onwards, industrial development came under the influence of an increasing degree of protectionism. 433

Protectionism, coupled with tax reliefs and subsidies, became more important still in agriculture. Once it was clear that the high tariff policy of the "Succession States" made a return to the old economic relations impossible, it was decided to foster agriculture in order to render Austria less dependent on food imports. Agriculture in Austria had been badly neglected before 1918, mainly owing to the influence of the Hungarian gentry who wanted to maintain their monopolistic position in the agricultural sector. Now that this influence was weakened, and the peasants' confidence in Austria's economic stability restored, there was a remarkable increase in the area under cultivation and in productivity.

Wheat				Rye		
	Area in ha. (ooo's)	Yield in thous. q.	Yield per ha.	Area in ha. (ooo's)	Yield in thous. q.	Yield per ha.
1925	195	2,904	14.8	383	5,500	14.3
1929	208	3,154	15.1	374	5,104	13.6

Barley				Oats		
	Area in ha. (ooo's)	Yield in thous. q.	Yield per ha.	Area in ha. (ooo's)	Yield in thous. q.	Yield per ha.
1925	140	2,006	14.2	307	3,884	12.6
1929	158	2,694	17.0	296	4,510	15.2

AUSTRIA'S ECONOMIC DEVELOPMENT

433

Potatoes				Sugar		
	Area in ha. (ooo's)	Yield in thous. q.	Yield per ha.	Area in ha. (ooo's)	Yield in thous. q.	Yield per ha.
1925	176	20,684	117.4	20	4,925	244.1
1929	189	28,030	147.6	30	6,912	227.6

As a result, Austria's dependence on food imports was somewhat reduced. This applied particularly to rye, sugar, and potatoes; in the case of potatoes the import surplus actually gave place to an export surplus. More important, there was a change in the structure of Austria's agriculture. Great strides were made in the spheres of stock-raising and the dairy industry which are particularly suited to Austria's topographic conditions. Between 1925 and 1930 the proportion of home-raised live cattle supplied to the Vienna market rose from 19 to 44 per cent. For beef the proportions were 17 and 33 per cent respectively, and for pork 47 per cent and 52 per cent. The establishment of 310 new co-operative dairy-farming and cheese-making companies greatly stimulated expansion in the dairy industry. In spite of increasing consumption, imports of milk and other dairy products fell from 40.1 to 9.1 million schillings between 1924 and 1929, while the exports of these products increased from 1.1 to 10.5 schillings over the same period. Within six years an adverse balance of almost 40 million schillings in this group was thus wiped out and an export surplus established.

464 In spite of all this progress the problems of unemployment and of an adverse balance of trade remained as yet unsolved.

It had already been suggested that the increase in indus-

READJUSTMENT AND CONSOLIDATION

trial output was largely due to measures of rationalization rather than to an increase in the numbers employed. On the other hand, the pressure on the labour market continued. Apart from the structural unemployment inherited from war and inflation—the decline of the war industries, the reduction in administrative and banking personnel, the difficulties of the export industry—the process of readjustment still went on, slowly and haphazardly. Bank mergers, numerous liquidations, etc., all created new friction in the labour market. Walter Lippmann once said that it was the foreign policy of the United States not to have a foreign policy. Similarly it might be said of the Austrian Government of that period that its economic policy was to have no economic policy. 464

Not only was there no clear idea about the measures required to bring about the necessary and only half-completed changes as smoothly and as quickly as possible; the Government was also overcautious in its own spending policy. There was some expenditure on railway electrification, on agricultural improvement and on other investment and public work items. But this was altogether inadequate. The memories of the recent inflation, the need to maintain the country's foreign credit, the enormous burden of pensions for the great pre-war administrative machine, all made a balanced budget seem the ultimate goal of state finance. Thus unemployment in Austria was considerable even before the world depression. It remained high in 1925 and 1926, decreased slightly in 1927 and 1928, only to rise again in 1929. During the whole period there were at least 10 to 15 per cent unemployed.

Foreign trade was another source of weakness. With the growth of production in Austria and elsewhere, imports and particularly exports did, it is true, increase steadily. 439 457

AUSTRIA'S ECONOMIC DEVELOPMENT

AUSTRIA'S FOREIGN TRADE

(in million schillings)

[439]
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	1926	1927	1928	1929
Imports	2,771.3	3,094.1	3,230.1	3,248.3
Exports	1,706.4	2,040.5	2,202.1	2,169.0

But the adverse balance remained uncomfortably high throughout. The larger part of this deficit—probably 700 to 800 million schillings—was covered from income on the various invisible items mentioned earlier. The remainder is accounted for by foreign borrowing. It has been estimated that between 3,000 and 4,000 million schillings had been borrowed between 1923 and 1930. This would not have mattered greatly in normal world economic conditions, except that a large part of these loans consisted of short-term advances to the banks. A large part of this money was lent to industry on, what was in fact if not in form, long-term conditions. The dangers of a sudden withdrawal of these funds should have been obvious. Moreover it was clearly impossible to continue indefinitely with an import surplus of that size since, in addition to current interest payments, the capital itself would ultimately have had to be repaid.

433 But it was not easy to find a solution. Austria's demand
439 for her imports—mainly food and raw materials—was highly inelastic and could not be easily adjusted to changing conditions; while her exports—mainly manufactured goods—were increasingly excluded by the tariff walls that sprang up all over Europe. Slow, and sometimes painful, structural changes did, however, take place which prepared the ground for later improvements.

Reference has already been made to the improvements

READJUSTMENT AND CONSOLIDATION

in agriculture which reduced the need for imports. Industry, too, increasingly adapted itself to the new conditions. When it became clear that the traditional markets in south-eastern Europe became less accessible and that the outlets for some of the staple exports diminished, both the commodities produced and the markets supplied became more diversified. The export of textiles, for instance, declined from 25 per cent of total exports in 1924 to 20 per cent in 1929 while the share of the newer light and fashion industries increased. An increasing share of exports went to Western Europe and overseas. Exports to Hungary, Yugoslavia, Roumania, and Bulgaria, on the other hand, dropped from about 38 per cent in 1924 to about 27 per cent in 1929.

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The new Austria was, in fact, beginning to find its feet. There were difficulties which were common to all countries at that time and others which arose from Austria's recent past. It was clear that these difficulties were capable of being overcome, given time and effort. Suddenly however the economic progress of Austria, like that of most other countries, was sharply interrupted.

NOTES TO CHAPTER III

1. The very marked seasonal fluctuations are mainly due to the fluctuations in the building trade and the hotel trade (tourist traffic).

2. This is the estimate of W. T. Layton and Ch. Rist in their report to the Council of the League of Nations on "The Economic Situation of Austria" (1925).

3. This problem existed of course in all belligerent countries. In Great Britain, for instance, the percentage of unemployed in January, 1925, was 23.8 for steel-melting and iron-puddling, 14.0 for general engineering, and 31.8 for shipbuilding; figures which were considerably above those for most of the other industries.

4. Between October, 1923 and March, 1924, 65,000 State officials were discharged. The changes in the field of banking are shown by the following figures :

	Number of Banks	Number of Banking Firms
1913	26	150
1924	61	260
1925	59	175

5. Op. cit., p. 22.

6. These estimates of changes in the tariff level come from H. Liepmann, *Tariff Levels and the Economic Unity of Europe*, p. 415.

7. Under the federal constitution of the Austrian republic Vienna was one of the nine federal provinces, and had therefore considerable independent powers of taxation, expenditure, etc.

8. See H. T. N. Gaitskell, "Austrian Economic Development", in *Lloyds Bank Review*, May 1934, p. 199. Part of these funds were kept as reserves of the National Bank and as foreign exchange holdings of the other banks.

CHAPTER IV

THE EFFECTS OF THE WORLD CRISIS

AUSTRIA'S economic development in the 'twenties⁴⁵⁸ was, as we have seen, largely coloured by her special post-war problems. But when, in the autumn of 1929, the⁴³⁹ spectacular American boom came to an abrupt end, and depression spread like a wild fire from one country to another, economic events in Austria became far more "synchronized" with those elsewhere. Austria's economic system had largely returned to normal conditions; and it was so integrated into world trade that her experience and her problems were now far more like those of other countries. Events in Austria between 1929 and 1933 thus followed the general world pattern. But Austria was particularly sensitive to outside economic shocks. There are few—if any—countries which are or could be wholly self-sufficient; they all depend to some extent on foreign trade and are therefore affected by the loss of export outlets. In Austria, however, foreign trade played an exceptionally large part. An estimate published in the *German Statistical Year-book* puts imports and exports (in brackets) per head of the population in 1929 at RM. 534 (414) for Switzerland, 288 (193) for Austria, 233 (201) for France, 210 (211) for Germany, 168 (172) for Czechoslovakia, 118 (81) for Italy, 90 (88) for Hungary, 46 (44) for Yugoslavia, 44 (34) for Bulgaria, and 41 (40) for Roumania. Another estimate puts the percentage of manufactured goods produced for export in Austria in 1931 as high as 45 per cent. The drastic fall in world

AUSTRIA'S ECONOMIC DEVELOPMENT

458
[439] purchasing power, followed by an orgy of tariffs, quotas, and currency wars, was therefore bound to hit Austria severely. Moreover, Austria was particularly vulnerable owing to the fact that the financial problems inherited from war, inflation, and foreign borrowing suddenly became acute and led to a severe crisis.

The turning point, as in most other countries, came in the third quarter of 1929. Prices tumbled down, production declined, unemployment grew, foreign trade vanished. The following figures indicate this process of decline in Austria and some other countries.

INDEX OF INDUSTRIAL PRODUCTION

(1929 = 100)

[433]

	1929	1930	1931	1932	1933	1934
Austria	100	85	70	61	63	70
Czechoslovakia	100	89	81	64	60	67
Hungary	100	95	87	82	88	99
United Kingdom	100	92	84	84	88	99
U.S.A.	100	81	68	54	64	66
Germany	100	86	68	53	61	80

PERCENTAGE OF WORKERS UNEMPLOYED ¹

[464]

	1929	1930	1931	1932	1933	1934
Austria	12.3	15.0	20.3	26.1	29.0	26.3
Czechoslovakia	2.2	4.5	8.3	13.5	16.9	17.4
Great Britain	10.4	16.1	21.3	22.1	19.9	16.7
U.S.A.	8.2	14.5	19.1	23.8	24.3	20.9
Germany	9.3	15.3	23.3	30.1	26.3	14.9

⁵²
1/ [CA. CATEGORY III, P. 63 -- ANALYST]

THE EFFECTS OF THE WORLD CRISIS

IMPORTS AND EXPORTS

Value in national currencies (ooo,ooo's omitted)

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		1929	1930	1931	1932	1933	1934
Austria	Imp.	3,263	2,699	2,161	1,384	1,148	1,153
	Exp.	2,189	1,851	1,291	764	775	857
Czecho-slovakia	Imp.	19,942	15,680	11,725	7,459	5,799	6,349
	Exp.	20,485	17,460	13,106	7,329	5,843	7,267
United Kingdom	Imp.	1,111	957	797	651	626	680
	Exp.	729	571	391	365	368	396
U.S.A.	Imp.	4,339	3,114	2,089	1,325	1,433	1,636
	Exp.	5,157	3,781	2,378	1,576	1,647	2,100
Germany	Imp.	13,447	10,393	6,727	4,666	4,204	4,451
	Exp.	13,483	12,036	9,599	5,739	4,871	4,167

These figures clearly demonstrate the extent and the universality of the depression.

The decline in foreign trade, which was everywhere far more severe than the decline in production, affected Austria gravely. The increasing adoption of "beggar-my-neighbour" policies greatly restricted outlets for Austria's manufactured goods. Tariffs rose to incredible heights in central and south-eastern Europe; quotas, import prohibitions, and a hundred and one forms of administrative protectionism blocked the flow of goods.

Austria was compelled, in turn, to resort to increasing protectionism and her agriculture, in particular, was increasingly cut off from the world market. Home food prices were, in fact, maintained much more than prices of manufactured goods, and this resulted in an increase in agricultural production, contrasting strangely with the persistent decline in industrial output.

The workers, of course, had now to pay relatively higher prices for their essential needs. On the other hand, the stability and purchasing power of another important

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AUSTRIA'S ECONOMIC DEVELOPMENT

458 section of the population was substantially preserved.
435 Even so, to the extent that prices *did* fall, the real burden of debt was increased. The smaller peasants, particularly those in the poorer mountain districts, suffered most and the Government was more than once forced to come to their assistance.

439 There can be no doubt that the growing protectionism reduced the advantages of international division of labour. But there was little choice in the circumstances. The loss of income from exports had to be replaced by home-produced income. While exports declined rapidly (until in 1933 they were only 35 per cent of the 1929 level ²). Austria's readjustment of production allowed her to cut down imports in the same period to 35 per cent of the 1929 level. This went a long way in solving the long-standing balance of trade problem; but the way in which it was solved was hardly the ideal one. The import surplus, which had amounted to over 1,000 million schillings annually in the period preceding the depression, fell to 848 million schillings in 1930, 870 million schillings in 1931, 620 million schillings in 1932, 373 million schillings in 1933, and 296 million schillings in 1934.

453 The depression thus took its "normal" course in Austria: a fall in the national income and in production, a rise in unemployment, misery, and social tension, accompanied by frantic but unco-ordinated efforts by all governments to stop the catastrophe and to readjust the domestic economic structure. Austria travelled the same road as the rest of the world. But half-way through the crisis, in the beginning of 1931, there occurred an event which suddenly revealed, not only Austria's financial weaknesses, but those of the whole world. To this event, the breakdown of the Credit-Anstalt, we must now turn.

There were two major financial problems in Austria.

THE EFFECTS OF THE WORLD CRISIS

First, Austria's banking system had been seriously thrown out of gear by the break-up of the Empire and by the subsequent inflation. Vienna, it is true, continued to serve as a major financial centre for central and south-eastern Europe. But the newly created financial institutions of the Succession States now took the "cream" off the market. They supplied the credit requirements of the new, and highly protected, industries of their countries: and the Vienna banks had to employ their funds in less secure fields. 453

The fictitious banking boom of the inflation was followed by a process of readjustment. The banks began to cut down their staffs and expenditure, and to revise their balance sheets. But there was no systematic and orderly approach to the problem. Progress was haphazard and altogether too slow. There were danger signs even before the outbreak of the world depression. All the banks had had to cope with considerable difficulties. Some of them, including not a few of the more important ones, went down. Well-known institutions like the Depositen Bank and the Anglo-Austrian Bank had to be liquidated or absorbed by other banks. Finally, in 1929, the Bodencreditanstalt, the second largest bank in Austria, found itself in trouble. In order to prevent a failure of this bank and the consequent loss of confidence, the government pressed the Credit-Anstalt, Austria's biggest bank, to take over the Bodencreditanstalt. This, however, could not but weaken the financial position of the Credit-Anstalt, now by far the most important credit institution in Austria. Its balance sheet totals now made up no less than 70 per cent of the figures for all Austrian banks taken together.

Secondly, the credit structure as a whole rested on a rather precarious foundation. All the central European

AUSTRIA'S ECONOMIC DEVELOPMENT

453 banks had tended to increase their liabilities in relation to their own capital; and the high rates of interest had led to a continuous influx of foreign short-term money which the banks re-lent for medium- and even long-term purposes. This could not but render the banking system (in Austria and elsewhere) highly vulnerable to any sudden outside shocks.

453 The shock (or rather several shocks) came with the outbreak of the world depression. First, with the 1929 stock-exchange boom in Wall Street in full swing, the 457 inflow of short-term funds (particularly American) which had been continuous from 1925 onwards came to an abrupt end. Later, loans were called in so as to satisfy the desire for liquidity which the depression had everywhere created. But a large part of this money had been re-lent for purposes of long-term capital-extension and it was now found to be "frozen". Further sums had been invested in the Balkan countries where the catastrophic fall in agricultural prices rendered the service on foreign loans increasingly out of the question. Bad debts accumulated and had to be written off.

The decline in the banks' liquidity was only half the trouble. They also lost much of their own capital. The Austrian banks—and to a lesser degree all Continental banks—had been in the habit of investing a large part of their capital in industry. With the severe decline in industrial production and profits, the banks thus suffered heavy losses on their shareholdings.

453 All these factors had been quietly at work below the surface of an apparently smoothly working banking system. Quite suddenly, however, these facts were brought to light, with all their devastating implications. On May 11th, 1931, it was announced that the losses of the Credit-Anstalt had been so severe that it was unable

THE EFFECTS OF THE WORLD CRISIS

to meet its obligations without liquidating the whole concern. It appeared later that its outstanding obligations were actually considerably in excess of its own capital, which then consisted of 125 million schillings, together with a reserve fund of 40 million schillings. 453

The bare announcement of these facts had staggering effects. It set the ball rolling which knocked over the financial and monetary stability not merely of Austria but of the whole world. For the Credit-Anstalt was not just *some* Austrian bank. It was closely integrated into the world's financial structure. Its foreign debts amounted to \$76 million of which 27 million were due to Great Britain and 24 million to the United States. Certain banks in other countries which had considerable interests in the Credit-Anstalt were directly affected, and so the crisis spread from the Credit-Anstalt to the German Darmstaedter and National Bank and to the Dutch Amstel Bank.

There were other less direct but even more important consequences. The failure of the Credit-Anstalt did not just mean the freezing of a number of credits; it was a symptom of the serious deterioration of the world's financial and economic stability. Loss of confidence, nervous and rapid shifts of capital, extreme economic nationalism in monetary matters, which had been raising their heads here and there, now came fully out into the open. A line is, in fact, discernible which leads from the collapse of the Credit-Anstalt to the suspension of the Gold Standard in Great Britain in September, 1931.⁵²

Let us now return to the Austrian scene. When the position of the Credit-Anstalt became known it was clear that such an important institution could not be allowed to go bankrupt. Too large a sector of Austria's industry was dependent on the Credit-Anstalt for fixed and working 453
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AUSTRIA'S ECONOMIC DEVELOPMENT

453 capital; the country's foreign credit was too closely bound
652 up with the solvency of this bank. The Government
therefore stepped in within four days and, together with
the Austrian National Bank and the House of Rothschild,
assumed responsibility for its financial reconstruction. A
number of measures followed in quick succession. The
government guaranteed first the foreign, and later also the
domestic deposits of the Credit-Anstalt. A committee was
set up in London to represent the interests of foreign
creditors. An agreement was signed providing that 500
million schillings of foreign short-term credits were not
to be withdrawn for two years. Strict economies were
introduced. Salaries and pensions were heavily cut by
453 decree; many of the bank's employees were sacked. The
652 problem of an overgrown banking system was at last
being solved; but in a way which created much misery and
464 dislocation. No doubt, the Credit-Anstalt had somehow
to be saved. But the Government was too concerned
about the profitability of the concern and the interests of
the shareholders. Its measures contributed to the already
serious structural unemployment among the middle
classes and served to prolong the depression. Moreover,
the Government missed an unique opportunity of using
its newly gained influence over the main credit institution
to re-organize and direct the country's industrial structure
in the national interest.

453 But the collapse of the Credit-Anstalt did not only call
436 for far-reaching measures for the restoration of that
652 institution. It also had grave repercussions on Austria's
monetary system. The National Bank had been forced to
457 re-discount a large number of Credit-Anstalt bills, and
the note circulation began to swell. At the same time, in
spite of the Government's speedy assistance and guarantee,
confidence had been shaken and funds were withdrawn

THE EFFECTS OF THE WORLD CRISIS

from the Credit-Anstalt on a large scale. Particularly foreign short-term credits, which had already trickled outwards ever since 1929, were now called in rapidly. About 1,000 million schillings were withdrawn from Austria within a year. 457
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This put a severe strain on the foreign exchange reserves of the National Bank. The stability of the currency, which had rested on a firm basis since the inflation had come to an end, was threatened once again. 457 Support was urgently needed and, for the second time in its short history, the Austrian Republic had to appeal for foreign help. Some welcome, but sadly inadequate, help was rendered in June, 1931, in the shape of a 150 million schillings credit from the Bank of England and 100 million schillings from the Bank for International Settlements. This eased the strain for the moment, but soon there was a renewed decline in foreign exchange reserves. Germany and Hungary suspended their foreign payments. This meant not only a loss of expected income but it also undermined confidence still further and a flight of capital set in which threw the foreign exchange market completely out of gear.

On August 7th, 1931, the Austrian Government asked the League of Nations for a 250 million schillings loan. 652
457 As in 1922, this loan was ultimately granted. But again the help did not come soon enough. After prolonged negotiations and investigations the Financial Committee of the League of Nations stressed in March, 1932, that the financial strain of Austria, Hungary, Greece, Bulgaria, etc., was mainly due to world causes over which they had very little control, and that there was an urgent need for international financial help. In the summer of 1933, two years after the first appeal, the loan was finally launched.

But in the meantime the position had gone from bad

AUSTRIA'S ECONOMIC DEVELOPMENT

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43 to worse. Action became imperative. The demand for foreign exchange increased steadily and an unofficial premium on foreign currencies developed. On October 9th, 1931, after the foreign exchange reserves of the National Bank had fallen from 856 million schillings on May 7th to 359 million schillings, exchange control was finally introduced to stop any further loss of reserves. The same measure had already been introduced by Germany, Denmark, Hungary, Greece, Czechoslovakia, and Yugoslavia. It soon spread to most of the smaller nations in Europe and South America. Further measures—above all import quotas and clearing agreements—followed for the purpose of husbanding the scarce foreign exchange reserves.

In this way the emergency was temporarily met, the further flight of capital reduced, and the "devisen" resources preserved for essential imports of raw materials and foodstuffs. But exchange control created problems of its own. Prices in Austria had tended to be higher than world prices since mid-1931 so that now, with the value of the schilling artificially maintained, imports were encouraged while exporters found it increasingly difficult to compete in foreign markets. In spite of the controls the reserves of the National Bank therefore continued to decline in 1932, and in June of that year the transfer on foreign debts had to be suspended for almost a year.

The Austrian schilling had to be brought into line with world prices. But the Government was reluctant to devalue the currency for two reasons. First, the Austrian public was still very much "inflation-minded", and considered devaluation as equivalent to inflation. Devaluation might thus raise political difficulties. Secondly, devaluation would raise the burden of the foreign debt.

These considerations, however, lost much of their force

THE EFFECTS OF THE WORLD CRISIS

as one country after another went off the gold standard and devalued its currency. After a period of strict exchange control, lasting from October, 1931, to the middle of 1932, the Government relaxed some of its regulations. "Private clearing" was admitted, first in a restricted field, from which it quickly expanded until it covered the great majority of Austria's imports and exports. The private clearing system consisted in permitting exporters to sell their foreign exchange directly to importers instead of requiring them to hand it over to the National Bank at the official exchange rate. In these private clearing dealings the schilling was actually devalued and found its equilibrium level so that exporters could once again compete in the world market while importers could obtain the necessary "devisen" without further formalities and delays. This *de facto* devaluation of the schilling was finally officially recognized in April, 1934, when the Austrian National Bank revalued its gold and "devisen" resources at the new parity of the schilling. This revaluation of the reserves corresponded to a 22 per cent devaluation of the schilling. 652 457

After that date Austria returned to a practically free foreign exchange market,⁷ and the stability of the schilling was once again secured. This was a remarkable achievement at a time when most of the other countries in central and eastern Europe travelled in the opposite direction, viz. towards more exchange control and a greater isolation of their economies from the world market. Austria's withdrawal from all but rudimentary exchange control was indeed, as an American economist said, "a unique chapter in monetary history".¹

Its importance lay not only in preserving Austria's position as a centre for transit trade and commercial and financial services; above all, it rescued Austria's foreign 652 439

AUSTRIA'S ECONOMIC DEVELOPMENT

652 trade from Germany's trade offensive which was so
439 catastrophically successful in the Balkan countries.

But this could not have been done had there not been a general change for the better in the whole economic position.

The ensuing period of recovery forms the subject of our next chapter.

NOTES TO CHAPTER IV

1. These percentage figures are calculated in rather different ways in different countries. They can therefore only be used for rough comparisons. 000

2. The figures here refer to the *value* of imports and exports. Since prices fell considerably in this period the decline in the volume of foreign trade was not so heavy.

3. Austria's average import of 1924-9 was reduced (in quantity) to the following amounts in 1932: cattle, one-sixth; meat, one-quarter; hogs, one-third; lard, 90 per cent; and flour, 40 per cent.

This reduction was partly due to increased agricultural output, partly to lower consumption.

4. The Credit-Anstalt was founded by the Rothschild interests in 1855, on the eve of Austria's rapid industrialization. It soon became the most important financial institution in the whole of south-eastern Europe, and had a deep influence on Austria's industry. Careful and conservative in its policy, it used to be a flourishing undertaking and earned a dividend in every year from 1857 to 1928.

It may be mentioned at this juncture that the author of this book has nothing in common with *the* Rothschilds except the name.

5. Professor Toynbee has summed up the story concisely: "This change for the worse [in the world crisis], which had been taking place for some time under the surface without being realized, or at any rate without being faced, by people at large, was brought to public notice abruptly by the announcement of the collapse of the Austrian Credit-Anstalt für Handel und Gewerbe on the 11th May; and the news precipitated a number of movements which had been held in check, though this with increasing difficulty, until that moment." *Survey of International Affairs*, 1931, p. 26.

6. The monetary problems discussed here were, of course, by no means specifically Austrian. Similar problems caused head-

AUSTRIA'S ECONOMIC DEVELOPMENT

600 aches to most governments in that period, and in Germany and south-eastern Europe in particular the position was very serious.

7. Certain measures of exchange control were kept in force as an emergency weapon in order to meet the effects of the monetary and trade policies of the highly controlled neighbouring countries, and to prevent the flight of capital.

8. Howard S. Ellis, "Exchange Control in Austria and Hungary", *Quarterly Journal of Economics*, Vol. 54, No. 1, Part II, p. 47.

CHAPTER V

RECOVERY

TOWARDS A BALANCED NATIONAL ECONOMY

IF the world depression had dragged Austria down with it, the subsequent world recovery reacted beneficially on her economic life. The deflationary policy pursued by the Government after the financial shocks of 1931 tended, indeed, to retard the upswing in Austria. Nevertheless, from the second half of 1933 onwards, there was a clear and unmistakable upward trend in all spheres of economic life. 458

Industrial production, which had fallen to 61 per cent of its level in 1932, increased rapidly until it reached a new record level in 1937, the last year of Austria's independence. 433

INDICES OF INDUSTRIAL PRODUCTION
(1929 = 100)

	Austria	Czecho- slovakia	Germany	Great Britain	U.S.A.
1932	61	64	53	84	54
1933	63	60	61	88	64
1934	70	67	80	99	66
1935	80	70	94	106	76
1936	86	80	106	116	88
1937	103	96	117	124	92

This increase in production naturally led to some reduction in unemployment. Unemployment figures, 464

AUSTRIA'S ECONOMIC DEVELOPMENT

464 which had passed the 400,000 mark in 1933, fell gradually to approximately 320,000 in 1937. This was, however, still considerably above the level of 200,000 unemployed in 1929. In fact, the problem of unemployment, particularly in the heavy industries and among commercial and administrative workers, remained virtually unsolved. The policy of the Government lay the foundation for a more solid and independent national economy. But it fell far short of an expansionist policy that would have ensured the full use of the country's human and material resources.

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433 Of great importance was the conspicuous progress in agriculture which had been continuous ever since 1920. In a world striving for self-sufficiency, where markets for manufactured exports became increasingly closed, it was necessary to reduce the import requirements for food-stuffs. This object was largely achieved. Taking 1923 as the first normal year in Austria's economic life, we obtain the following picture of development.

	Year	Production (in 1,000 quintals)	Per cent of Requirements
Wheat	1923	2,419	33
	1936	3,678	63
Rye	1923	4,023	76
	1936	4,605	81
Barley	1923	1,710	63
	1936	2,531	85
Oats	1923	3,754	82
	1936	4,029	94
Potatoes	1923	14,262	95
	1936	24,994	100
Sugar	1923	473	31
	1934-6	1,919	99

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439 Even more important were the structural changes in agriculture. In particular, great progress was made in dairy farming; an industry which had been badly neglected

RECOVERY

in the past although it was excellently suited to Austria's natural conditions. In spite of increased home consumption an export surplus was now achieved for the first time. 234
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EXCESS OF IMPORTS (—) OR EXCESS OF EXPORTS (+)
(in quintals)

	1923	1936
Milk	— 200,000	+ 114,000
Butter	— 16,000	+ 35,000
Cheese	— 43,000	+ 31,000
Condensed milk	— 80,000	+ 300

In foreign trade, too, considerable advances were made. Foreign trade did not, it is true, recover to the same extent as production. Even in 1937 Austrian imports, amounting to approximately 1,500 million schillings, were only 45 per cent of the 1929 value, while exports in the same year (approximately 1,200 million schillings) were only 55 per cent of the 1929 value. Moreover, the recovery of Austria's foreign trade was less marked than elsewhere, and Austria's share in world trade fell from 1.12 per cent in 1929 to 0.93 per cent in 1937. 439
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The volume of foreign trade, therefore, did not increase as much as was desirable. But the balance of trade became much more favourable than it had ever been. When, after 1933, foreign trade began to revive, exports increased to a greater extent than imports. In spite of the growing volume of trade, the import surplus therefore remained at a low level. For the period 1933-7 it amounted to about 320 million schillings per year, as compared with more than 1,000 million schillings in the years before 1930.

Moreover, the gap of 300 million schillings or so was easily covered by Austria's income from various other sources, and it was now no longer necessary to raise foreign loans on that account. Income from tourist 457

AUSTRIA'S ECONOMIC DEVELOPMENT

457 traffic, in particular, had greatly increased in importance since the beginning of the thirties. Austria's great potentialities in this sphere were now much more fully used than in the past. The hospitality and the cosmopolitan outlook of the population; the increased facilities for cheap accommodation and the cheap railway fares; the Salzburg festivals, the Grossglockner Alpine Road, the International Congresses in Vienna; all these attracted a large and increasing number of foreigners to Austria. Between May and August, 1936, 500,000 foreigners visited the country; a third more than in 1935; and it has been estimated that the revenue from this source alone amounted to 300 million schillings in 1936.¹~~2~~

Alongside this improvement in the balance of trade there was a general change for the better in Austria's foreign debt position. When, in 1933, the League of Nations finally floated the Austrian Government Guaranteed Loan, the bulk of its yield was used for repaying the most pressing short-term debts and to clear up some arrears which had accumulated after the crash of the Credit-Anstalt. These and some further minor funding transactions reduced Austria's short-term indebtedness from about 1,290 million schillings in 1932 to the negligible figure of 47 million schillings in 1937. Thus the old standing danger to the stability of the currency of a large foreign short-term debt was removed.

Moreover, in the same period, the total amount of foreign indebtedness (whether long-term or short-term) was considerably reduced. Repayment of part of the capital, and above all the devaluation of the dollar, franc, and other currencies, reduced Austria's total foreign indebtedness by more than one half: from approximately 4,250 million schillings in 1932 to 1,880 million schillings in 1937. This, as well as the successful conversion of the

RECOVERY

1932 League of Nations Loan to lower interest rates, 457
greatly eased the burden of Austria's foreign debt service.
Interest payments fell from 282 million schillings in 1932
to 110 million schillings in 1937.

The improved position in the spheres of foreign trade 652
and foreign indebtedness, and the reorganization of
banking after the fall of the Credit-Anstalt, put Austria's
finances on a thoroughly sound basis. The gold and
foreign exchange reserves of the National Bank recovered
to a comfortable level. This enabled the Government to
do away with most of the exchange control introduced at
the height of the crisis; and the value of the schilling was
successfully maintained when, in 1936, three of Austria's
neighbours—Italy, Switzerland, and Czechoslovakia—de-
valued their currency. For the second time in her short
history Austria had emerged successfully from a very
difficult financial position. Confidence in her stability
was restored, and in 1937 Austria was in the unique
position among all the European debtor nations of
obtaining short-term commercial credits on the London
market. There can hardly be any doubt that Austria
could have solved her problems without any further
foreign assistance had she been able to maintain her
national independence.

Altogether, then, it may be said that Austria had passed 511
through a period of sound, if stormy, development in the
twenty years of her existence. Many improvements were 434
still required, many mistakes remained to be made good.
Nevertheless, Austria had reached economic standards
which compared very favourably with those of most other
countries in central and eastern Europe. Her economic
structure was much more similar to that of the Western
industrial nations, though her standard of living fell
greatly short of, say, British standards. To illustrate

AUSTRIA'S ECONOMIC DEVELOPMENT

511 Austria's intermediate position between the countries of
 434 eastern and western Europe, two sets of comparisons may
 be given: one showing estimates of the national income
 of some of the countries in question; the other showing
 the yearly consumption of some manufactured consumer
 goods.⁵¹

ESTIMATES OF NATIONAL INCOME

Country	Year of Estimate	Approx. National Income per Head in U.S. Dollars
Austria	1935	150-160
Czechoslovakia	1937	150-160
Hungary	1937	90-100
Yugoslavia	1937	55-65
France	1936	270-280
United Kingdom	1935	490-500

ESTIMATED YEARLY CONSUMPTION OF SOME MANUFACTURED
GOODS PER HEAD OF POPULATION

(Year: 1937)

	Cotton Goods (kilos)	Paper (kilos)	Sugar (kilos)	Wireless Sets (No. of Licences per 1,000 Persons)
Austria	5.1	14.8	19.5	92
Czechoslovakia	4.2	13.9	22.4	69
Hungary	2.4	10.0	12.7	43
Yugoslavia	2.0	3.5	5.4	7
Western Europe	8	30	32	120

THE NEW POLITICAL FRAMEWORK

178 In this second period of recovery Austria thus acquired what had only been half accomplished in the years from 1923 to 1929: a sound and stable economic foundation. But the recovery after 1932 did not simply pick up the threads of 1929. Political conditions had changed considerably, both at home and abroad; and this decisively

RECOVERY

influenced the economic structure which emerged in these last years of Austria's independence. Two factors, in particular, were of importance: the changeover from a democratic to an authoritarian régime; and the rapid growth of the German trade offensive in south-eastern Europe. 179

At home, the most obvious results of the destruction of democratic institutions were of course to be found in the political field. But there were also important economic concomitants. The dissolution of free trade unions and of other democratic bodies eliminated every organized force which might have safeguarded the share of the mass of the population in the national income. While production as a whole returned to and even surpassed the 1929 level, the production of consumption goods—contrary to the experience in most of the other countries—remained far below it. The trade revival came largely from increased exports, rearmament, and public works. The strong cartels which covered a large part of Austria's industry (e.g. in the iron and steel trades, in electrical engineering, in chemicals, rubber processing, sugar refining, in the paper and brewery trades, etc.) absorbed a large proportion of the rising national income into profits, and the revival failed to spread to the consumption goods industries which remained depressed and were a source of unemployment. 467 434 431

The external effects of the changed political situation were even more marked. In the inter-war period, and particularly after 1929, when tariffs, quotas, currency wars, etc., became the order of the day, the economic relations between most countries ceased to be governed by transactions between private traders. Foreign trade increasingly became the concern of governments, and economic policy a special aspect of foreign policy. Austria 439 652

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IN THE CHANGED POLITICAL CONDITIONS OTTEL 1932 ANAL
CATEGORY 116 P 77 ANALYST]

AUSTRIA'S ECONOMIC DEVELOPMENT

439 was no exception and it is in this field that particularly
652 grave mistakes were made in the period under review.

648 As early as 1931, when Austria was still a democracy, a
439 dangerous and harmful attempt was made in the inter-
national field to solve the growing economic difficulties.
Dr. Schober, a member of the small Pan-German group
in Parliament and Foreign Minister in the Coalition
Government of the day, entered into secret negotiations
with Dr. Curtius, the German Foreign Minister. On
March 19th, 1931, the world was suddenly informed of
the intention of the two governments to form a customs
union. The plan found instant and wholehearted support
in Germany. In Austria there was no enthusiasm about
it outside the ranks of the Pan-Germans, and many
Austrian industrialists were gravely disturbed by the
prospect of falling completely under German control.
But it was mainly in France and Czechoslovakia that the
full implications of this Pan-German move were im-
mediately grasped. Only a few days after the scheme was
announced, on March 26th, Dr. Beneš, the Foreign
Minister of Czechoslovakia, explained to the members of
the Foreign Affairs Committee that the customs union
project raised the question of the *Anschluss* indirectly as
a customs union between unequal parties was certain to
destroy the independence of the weaker.

457 Fortunately the project did not materialize. The
648 growing financial difficulties of Austria and the need for
foreign help, which Germany was neither able nor willing
to provide, induced the Austrian Government to give
up the plan for a customs union. A few days later, on
September 5th, the Permanent Court of International
Justice decided by a narrow majority—eight votes to seven
—that a customs union would be incompatible with
Austria's obligations under the Geneva Protocols.

RECOVERY

Thus Austrian independence and European peace alike were given another breathing space. But the active part which Austrian politicians had played in this German attempt towards central European hegemony could not but harm Austria's economic relations with some of her neighbours. Suspicion about German designs in Austria grew. Czechoslovakia, in particular, turned away from Austria. Trade relations with that country were of paramount importance to Austria for both political and economic reasons. It was all the more regrettable that Czechoslovakia moved from second place on the list of Austria's foreign trade partners to fourth: between 1929 and 1937 imports from Czechoslovakia declined from 18 per cent of total imports to 11 per cent, while Czechoslovakia's share in Austrian exports fell from 14 per cent to 7 per cent. 648
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With Hitler's rise to power, Germany's expansionist desires became naked and unashamed. It was no longer a question of a customs union; the outright annexation of Austria by Germany was put on the agenda. In these uneasy years between 1933 and 1937 Austria managed fairly successfully to escape the monopolistic domination which Germany imposed on most of the Balkan countries by commercial means. Though Germany continued to head the list of Austria's imports and exports, it never obtained a dominant position. In fact, its influence actually declined slightly during these years. Between 1929 and 1937, Germany's share in Austria's exports declined from 16 per cent to 15 per cent while imports from Germany fell from 21 per cent to 16 per cent of the total.⁸

Austria did not, however, escape the indirect effects of Germany's trade offensive. Germany's policy of monopolizing Balkan trade through bilateral agreements, bulk

3[A CATEGORY 116, ⁷³P. 77--ANALYST]

AUSTRIA'S ECONOMIC DEVELOPMENT

648 purchases, accumulation of debt, etc., was, first, designed
439 to gear the economic structure of these countries to the
needs of the German war economy. But it also served
to close the traditional export outlets of Austria and
Czechoslovakia, and so to weaken their economies.

PERCENTAGE SHARE OF GERMANY, AUSTRIA, AND CZECHO-
SLOVAKIA IN THE FOREIGN TRADE OF THE SOUTH-EAST
EUROPEAN AGRICULTURAL COUNTRIES (BULGARIA, GREECE,
ROUMANIA, TURKEY, HUNGARY, YUGOSLAVIA)

	Imports		Exports	
	1928.	1938	1928	1938
Germany	17	35	16	34
Austria	11	5	16	7
Czechoslovakia	14	7	8	6

Alternative outlets had to be found. Austria should have obviously tried to expand her trade with the Western democracies, with the Soviet Union, and with America and the Dominions. This would have created closer ties with the countries on whose active assistance Austria's security ultimately depended. And it would have enabled Austria to obtain in payment for its exports free exchange which could have been spent in the most advantageous markets. Austria's light and fashion trades offered every opportunity for expanding and diversifying her export markets in this way.¹⁰⁴ But Austria's fatal foreign policy in the years from 1933 to 1938 was matched by an equally disastrous foreign trade policy. The new authoritarian régime failed to establish close and friendly relations with democratic Czechoslovakia and with the other peace-loving powers. It pinned its hopes for security on the

RECOVERY

promises of Fascist Italy,* and, in 1934 signed the Rome Protocols. This was an agreement signed by Italy, Austria and Hungary providing for a preferential trade régime for these countries. Hungary was to find improved outlets for her agricultural exports while Austria and Italy would obtain preferential treatment for their industrial products. Behind all this, however, loomed Italy's attempt to obtain a dominant position in central Europe. 648
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The economic results of the Rome Protocols were anything but satisfactory as far as Austria was concerned. There was no great expansion of trade with Hungary. Exports to Italy increased quickly, it is true, particularly after the outbreak of the Abyssinian war and the imposition of sanctions in which Austria failed to join. Italy moved from fourth to second place on Austria's export list. In 1936, 14 per cent of Austria's exports went to Italy, as compared with 10 per cent (out of a much smaller total) in 1932. But Italy was neither able nor particularly willing to pay for these exports. Austria's export surplus to Italy amounted to no less than 70 million schillings in 1936 and 93 million schillings in 1937. Thus Austria, herself in sore need of capital investment in her industry, was compelled to make loans to Italy. The same applied to a slighter extent to Germany, where the clearing agreement also led to the accumulation of a credit balance in Austria's favour.¹¹⁷

It was not until 1936, when Italy's incapacity to pay became obvious and when the Italian Government tried to change the terms of the agreement in its favour, that an effort was made to re-direct Austria's trade. A preferential treaty was concluded with Czechoslovakia, in spite of severe opposition from Germany. Other attempts for 457
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* Instead of helping Austria, Mussolini, in the event, congratulated Hitler on his successful annexation of the country.

AUSTRIA'S ECONOMIC DEVELOPMENT

457 freeing trade from the straight-jacket of bilateral clearing
469 agreements followed. This was partly successful; exports
to "free payment" countries increased from 32 per cent
of total exports in 1929 to 36 per cent in 1937. But this
was a rather poor showing compared with Czechoslovakia,
where the share of exports to free-exchange countries
increased from 36 per cent to 52 per cent in the same
period. There was no time for obtaining any better
results for on March 11th, 1938, German troops crossed
the Austrian frontier.

NOTES TO CHAPTER V

1. *The Economist*, 14th November, 1936.
2. The reconstruction of the banking structure was followed by the readjustment of the similarly overgrown insurance business after the breakdown of the dominant firm, the Phoenix Insurance Company, in 1936.
3. The decision of the Austrian Government to maintain the value of the schilling was certainly a sign of the greatly improved financial position of the country and did much to increase its credit status. Nevertheless, it would probably have been wiser to devalue and thus to avoid the continuation of the deflationary pressure which hampered the revival of domestic production.
4. See Ellis, op. cit., p. 55.
5. These figures are taken from the *World Economic Survey*, League of Nations, 1937-8, and from the P.E.P. Report on "Economic Development in South-Eastern Europe".
6. If we take 1932 = 100, the value of retail sales of clothing fell in Austria to 94 in 1935, as compared with a rise to 109 in Great Britain (League of Nations, *World Economic Survey*, 1935-6, p. 121).
7. Public works were introduced on a larger scale after 1933 though they were never sufficient to make much impression on the unemployment problem. On the other hand, the extensive building programme of the Municipality of Vienna was discontinued after the political change of 1934.
8. By contrast, German trade with Bulgaria developed as follows: in 1929, Bulgaria sent 30 per cent of its exports to Germany and obtained 22 per cent of its imports from there; in 1937 the figures were 43 and 55 per cent respectively.
9. For a description of these methods, see Antonin Basch, op. cit., and also *The New Economic Warfare* by the same author.
10. In addition to the growth of exports from these newer industries, a considerable part of their output was sold directly

AUSTRIA'S ECONOMIC DEVELOPMENT

to foreign tourists. These sales do not of course appear in the export figures though they are really part of exports.

11. The German and Italian drive for self-sufficiency was another adverse influence. Their imports from Austria shifted increasingly from manufactured goods to raw materials, mainly timber, iron ore, and steel. This led to a concentration of unemployment among the skilled workers, and tended to worsen Austria's terms of trade.

CHAPTER VI

THE SHADOW OF GERMANY

ECONOMIC PENETRATION

AFTER the annexation of 11th March, 1938, Austria's economy became completely subordinated to Germany's war requirements and to the German preparations for a "New Order" in Europe. But it must not be assumed that Austria's economy had ever been able to develop freely and without interference from its powerful neighbour. Indeed, to understand fully the economic and political events in Austria the long-standing and baneful German influence must be constantly borne in mind. 648 457

Long before the last war German imperialism exerted a powerful influence on Austria's economic policy. After the creation of the German Reich in 1870 German industry grew at a rapid pace and Germany became the leading economic power in Europe. She soon took third place, after Britain and France, as a foreign investor. After a short period of all round lending in response to purely economic incentives, the loan policy of the German banks and industrial concerns was increasingly brought into line with wider political aims.¹ The *Drang nach dem Osten*, a prime feature in Germany's expansionist designs since the days of Bismark, came to determine the direction of her capital export. Large sums were invested in the Near East, in the Balkans and particularly in the Austro-Hungarian Empire. German investments in the Empire totalled RM. 3,000 million in 1913, more than the value of British and French investments taken together. There

AUSTRIA'S ECONOMIC DEVELOPMENT

648 was also much direct participation in the Empire's industry
457 and banking.

In those days free economic relations were still the rule. But Germany's lending policy was quickly used to help carve out political and economic spheres of influence. Loans were frequently granted only on condition that their proceeds should be spent on German products. By this means, the big German concerns obtained a dominant influence in these areas and trade was often diverted from its natural channels. Not less than 40 per cent of Austro-Hungary's foreign trade thus came to depend on Germany. The economic penetration of the Monarchy contributed greatly to its conversion into a junior partner in Germany's foreign policy and into a willing tool in the First World War.

As a result of that war Germany lost most of her foreign investments and eventually became herself largely dependent on foreign capital. Consequently, she was no longer of any importance as a source of capital supply for Austria and in foreign trade, too, she lost her predominant position, accounting for no more than about one-sixth of Austria's foreign trade.

But Germany did not therefore abandon her attempts at economic penetration in Austria. If anything, her efforts in that direction were greatly increased to compensate at least in part for the areas and opportunities lost in the war. The aim remained the same, though the methods were changed.

648 While Germany ceased to make loans to Austria she
471 continued to maintain a close grip through her shares in Austrian companies. The total amount of these holdings was moderate but they were of major strategic significance. German concerns had managed to obtain full or partial control over important firms in most of Austria's

THE SHADOW OF GERMANY

key industries. German capital was conspicuous in the spheres of banking and insurance, the iron and steel industry, heavy and electrical engineering, the chemical industry, textiles, hydro-electric works, and in the film industry. In many cases, of course, German capital opened up new opportunities, with benefits to all concerned. But more often German control resulted in the complete subordination of the policy of the Austrian firm to the interests of the German parent concern or to the political aims of the German expansionists. 648 471

In the electrical engineering industry, for instance, which was dominated by the German controlled Oesterreichische Siemens Schuckert Werke A.G., Siemens-Halske A.G., and the A.E.G.—Union Elektrizitaets-Gesellschaft, the goodwill which Austrian industry possessed in south-eastern Europe was exploited by using the Austrian establishments for exports to these areas. But the development work was invariably carried out in Germany. Austrian research workers and technicians were sent to the Berlin laboratories, and Austrian shareholders deprived of their dividends in order to strengthen the financial reserves of the parent concern. Accordingly, the Austrian establishments became increasingly dependent on German patents and finance while Austria's social and economic requirements were completely neglected. 648 393 471

Many similar examples could be given from other industries. One case, which deserves special mention is that of the biggest single Austrian combine, the Alpine Montan A.G. The Alpine owned all the important iron mines in Styria and Carinthia, all Austrian blast furnaces, a great number of steel works in southern Austria, lignite and magnesite deposits and railways. It controlled the bulk of Austria's metallurgical resources. 648 471 327

AUSTRIA'S ECONOMIC DEVELOPMENT

648 The Alpine had been the offspring of a merger of many
327 small companies in the days of the Monarchy. After the
471 war the majority of shares was acquired by the Govern-
ment, but in 1919—during the most critical period—they
were sold to a group of Italian financiers. From there, in
1921, they passed into the hands of the notorious German
inflation profiteer, Hugo Stinnes. When his meteoric rise
came to a sudden end the majority of shares (56 per cent)
were acquired, in 1926, by a member of the German Steel
Cartel, the Vereinigte Stahlwerke of Duesseldorf, a com-
bine headed by the Nazi promoter Fritz Thyssen.

467 From then on this most important combine in Austria's
heavy industry was run exclusively in the interests of
the German Steel Trust. All the important positions and
research facilities were reserved for adherents of "Pan-
German" convictions. The workers were forced to leave
their free trade unions and to join the *Heimwehr*, an
armed, anti-democratic body, whose Styrian branch was
heavily subsidized by the Alpine Montan. As early as
1931, the Styrian *Heimwehr* organized an unsuccessful
coup d'état against the Austrian Government. A number
of directors of the Alpine Montan were behind this *putsch*.
They were again involved, and actually arrested for a
short time, when the Nazis made an abortive *putsch* in
July, 1934, in the course of which Chancellor Dollfuss
was murdered.

648 On the outbreak of the great economic depression the
327 German steel magnates decided to concentrate production
457 in Germany. All Austrian blast furnaces were closed down
and the industrial districts of Styria were thus converted
into one of the worst-depressed areas in Europe. After
Hitler's rise to power, the Alpine was completely har-
nessed to the German armament programme, regardless
of Austria's political or economic needs. In 1937, when

THE SHADOW OF GERMANY

Austria was in great need of "free currency", the Alpine 648
refused orders from England and other countries, and sent
its whole output to Germany, in spite of the clearing 327
debts which had accumulated there. Ultimately the be- 959
haviour of the directors became so hard to distinguish
from high treason that the Austrian Government put a
Government Commissioner in charge of the firm. But it
was too late. A few weeks later the policy which the
directors of the Alpine had backed all along was fulfilled—
Austria was occupied by Germany.

Direct ownership and control were not the only means 648
by which the Germans exerted their influence in the
economic affairs of Austria. Recent investigations by the 471
American Anti-Trust Division have shown how, over a 477
long period, German combines used international cartels
in order to increase Germany's economic war potential. 3
If powerful monopolistic concerns in Britain and the 1
United States could be induced to act against the interests
of their own nation it is clear that the Germans had much
easier play as far as Austria was concerned.

Cartelization was a widespread feature of Austria's
industrial structure. The wide ramifications of industrial
investments of the major banks greatly smoothed the way
for trade agreements, mergers, etc. Many of these cartels
worked in close agreement with their German counter-
parts. Owing to their much greater financial strength the
German firms had the decisive say in directing cartel
policy. In their desire for high and safe profits the
Austrian cartel members not only damaged consumers
through their restrictionist policies; they also betrayed the
economic and political interests of their country in favour
of Germany.

These direct economic influences were supplemented 648
by other, more subtle, methods. From the day of the 668

AUSTRIA'S ECONOMIC DEVELOPMENT

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668 establishment of the Austrian republic onwards, German circles and their Pan-German friends in Austria conducted a propaganda drive against the country's independence, mainly on the argument that it "could not live". Diplomatic pressure was also used to prevent close economic co-operation between Austria and the Danubian states. Finally, there was the abortive attempt to establish a customs union in 1931.

On Hitler's rise to power the political and economic pressure on Austria was greatly intensified. Germany's trade drive in south-eastern Europe, for instance, was not only directed towards the economic and political domination of that area but also served to deprive Austria and Czechoslovakia of their natural export markets. There were also a number of direct attempts at injuring Austria's economy, among which the "Tausend Mark Sperre" was an important example. In 1933, a tax of RM. 1,000 was levied on every German wishing to go to Austria. This move was to deprive Austria of an important source of income and to spread discontent among certain sections of the population. Actually, the attack failed completely as the absence of the German tourists was more than made good by the huge increase in visitors from other countries. *

There were many other "subversive" economic activities designed to undermine Austria's independence and power of resistance to the Nazis. Austrian films, which largely depended on the German market, could be exported there only if they were produced in conformity with German racial legislation. Authors could get their books published in Germany only if they held pro-Nazi views. German-controlled firms in Austria employed salesmen whose job it was to spread Nazi propaganda in addition to selling their goods. In short, the economic

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2 [CA CATEGORY 116, P. 91 - ANALYST]

THE SHADOW OF GERMANY

Fifth Column was a powerful weapon in Germany's arsenal for her attack on Austria's independence.

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AFTER THE ANNEXATION

The economic implications of the occupation of Austria were as little appreciated at the time as its political and strategic significance. In fact, Germany's war potential was greatly strengthened as a result. Austria's iron ore, magnesite, timber, electric power, etc., afforded valuable relief to Germany's war industry which was beginning to run short of raw materials. Austria also provided a source of skilled manpower which could be harnessed to the growing efforts of the German war economy.

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Moreover, the gold and foreign exchange reserves found in the Austrian National Bank were of great immediate importance in helping Germany to build up emergency stocks for the coming war. Heavily indebted to her clearing partners, Germany had found it increasingly difficult to obtain foreign exchange for even the most essential raw material imports. The gold reserve of the Reichsbank had fallen to the extremely low level of RM. 76 million. They were now able to lay their hands on a gold reserve of more than 420 million schillings, or roughly RM. 200 million. Moreover, Austria had at that time some 200 million schillings of clearing balances to her credit (mainly from Germany and south-eastern Europe). Thus Germany was, at one stroke, rid of the problem of paying Austria and was able, with the help of Austria's claims, to settle her long-standing debts in the Balkans.

Finally, the occupation of Austria enabled Germany to outflank Czechoslovakia's strategic defences, and opened the road towards the east. The economic encirclement of eastern Europe was also complete. The Balkan countries had become dangerously dependent on trade with

AUSTRIA'S ECONOMIC DEVELOPMENT

728 Germany which had swallowed up one of their important
648 customers and suppliers—Austria had up till then
439 occupied the third or fourth place in the foreign trade of
most of these countries. Politically and economically
Germany had become the complete master of the whole
area.

471 For Austria, of course, the occupation meant far more
648 than a dangerous shift in Europe's economic balance. Her
655 economy ceased to exist as a separate entity; within a very
short time it was completely absorbed into Germany's war
economy and her "New Order".⁵⁴

The Germans were able at once to lay their hands on all
Austrian State property. The railways were incorporated
into the German railway system, the State forests taken
over by the German State. The State monopoly in salt
was given to the Deutsche Bank, and the tobacco mono-
poly taken over by a private German company. Far more
important, however, were the shares of the Credit-Anstalt
which were owned, at that time, by the Austrian Govern-
ment. After the reorganization of the Credit-Anstalt in
1931, 49 per cent of its shares were taken over by the
Government. These, together with some others, were now
transferred to the Deutsche Bank. Since at the same time
the only other important bank, the Zentraleuropäische
Länderbank, came under the control of the Dresdner
Bank, practically the whole of Austria's banking and
insurance business had passed into German hands.

471 It must be borne in mind, in this connection, that the
453 Central-European banks held a key position in the
457 industrial life of their countries. It has been estimated
that the Credit-Anstalt controlled almost 90 per cent
of Austria's industry and agriculture. Moreover, the
Austrian banks and financial institutions still possessed
considerable investments in the Balkan countries, particu-

THE SHADOW OF GERMANY

larly in banking, and in the textile, chemical, and food-processing industries. ⁴⁷¹ All these controlling positions now passed into the hands of the German banks. Vienna ⁴⁵³ became Germany's launching ramp for south-eastern ⁴⁵⁷ Europe, and Austrian economic quislings greatly helped the Germans to advance their economic penetration of the Balkans.

But the indirect control of Austrian industry through the banking system was only a first step. Within a very short space of time all the more important Austrian firms passed either partly or wholly into German hands. This was achieved either by methods of outright robbery, as in the case of "aryanization" (the confiscation of Jewish property), or by exploiting the financial difficulties in which many firms had been landed as a result of the occupation and incorporation of Austria; or through a skilful handling of the financial control which had been gained in the first instance. In this way all important industrial enterprises were absorbed into the big German combines like the I.G.-Farben, Krupp, Henschel, Vereinigte Industrie—A.G., and particularly the Hermann-Goering Works, which acquired the control of the largest part of Austria's heavy and allied industries. ⁶⁴⁸ Altogether, it has been estimated, a share capital of about 380 to 400 million schillings (of industrial, commercial, and banking firms) passed into German hands. This compares with a sum of about 710 million schillings which was the total value of all shares admitted for quotation on the Vienna Stock Exchange in August, 1938. ⁴⁷¹

While the big Austrian firms were being subjected to German control a process of decline took place among the smaller firms. Many small business men were ruined by the policies of rationalization, concentration, and above all by the extension of war production at the cost of the

AUSTRIA'S ECONOMIC DEVELOPMENT

471 typically Austrian high-quality consumer goods industries. Between 1938 and 1942, the number of business enterprises in Austria declined from about 21,300 to 16,300, while the corresponding number in Germany increased from 337,000 to 353,000 over the same period.

648 The changes were less spectacular in agriculture. But
423 many of the large estates belonging to the Church and the
167 monasteries as well as State-owned land came into German
728 ownership. Farmers who were in difficulties were not
assisted but bought out and German "hereditary farmers"
(*Erbhofbauern*) were settled in Austria. At the same time
the sons of Austrian peasants were sent to Poland, Russia,
and even to Bohemia and Moravia in order to "colonize"
these areas. However, the changes in property relations
were of less importance in the sphere of agriculture than
the extreme regimentation of production and the system
of forced deliveries which reduced the peasants to a state
of serfdom.

128 It is too early as yet to give an exact picture of the effects
471 of seven years of German domination on Austria's econ-
omy. Some major results are, however, clearly discernible.

648 First, it is clear that the Germans completely changed
433 the economic structure of Austria. Austria's economy
was wholly adapted to suit the needs of the German war
machine. And since Austria, like Czechoslovakia, was for
a long time the safest place from air attack in Hitler's
Festung Europa it became one of the most important
centres for the production of armaments. Heavy industry
was greatly expanded. In Linz alone the Hermann
Goering concern erected 320 coke ovens and 6 blast
furnaces. In 1943, it was estimated that about 25 per cent
of Germany's war industries had been concentrated in
Austria.

On the other hand, many of the specifically Austrian

THE SHADOW OF GERMANY

industries producing high-quality goods such as electrical equipment, precision instruments, food products, leather goods, arts and crafts, the fashion industry, etc., were either completely ruined by the dearth of raw materials, or they lost their identity by being absorbed into some German concern. Many smaller firms with a high reputation had to close down, and their carefully built up personnel was drawn into the army or into the armament industries. A considerable effort will be required to restore these enterprises which are of great importance for Austria's exports, particularly in her trade with Britain and the United States. 728 471 433 648

In agriculture, too, the many promising developments before 1938 were brought to an end and production was devoted to the sole purpose of yielding as great a surplus for Germany as possible. In particular, the output of vegetables, staple foods and industrial crops was greatly stepped up.

While Austria's economic structure has been altered, total production was greatly increased. Between 1938 and 1944 steel output, for instance, was doubled; the production of aluminium rose from about 4,000 to 72,000 tons, and the generation of electricity increased from 2½ million kW.h. to almost 10 million kW.h.

The upward trend in war industries was accompanied by considerable shifts in the location of industry. In particular, the Linz-Wels-Steyr area in Austria was greatly expanded and converted into a huge centre of heavy industry. Motor roads and inland shipping facilities were also greatly extended.

These increases were achieved through a considerable reduction in the output of the consumer goods industries, by neglecting the replacement of worn-out machinery, by moving German capital equipment and German and

AUSTRIA'S ECONOMIC DEVELOPMENT

648 foreign labour to Austria,¹⁰ and also by making much
728 fuller use of Austria's resources than ever before. Indeed,
433 the organization of a war economy has revealed the
471 potential wealth of Austria—as of other countries—
showing what could be achieved in peace time if only
proper use were made of existing opportunities.

The increase in production, however, was also achieved
by eating deeply into Austria's resources. In many cases
it will take years before the damage can be repaired, if
indeed it can be repaired at all. In the case of timber, for
instance (an extremely important export commodity in
Austria), a reckless policy of exploitation has undone
many years' work of careful afforestation. The intensive
cultivation of the soil and the lack of artificial fertilizers
and of animal feeding-stuffs has had the most damaging
effects on agriculture. Up to the middle of 1942 harvests
and herds of livestock were maintained at the pre-war
level; but the position has greatly deteriorated since then.
1943, in particular, was a bad year and large numbers of
livestock had to be slaughtered.

The increase in the output of oil in Zistersdorf from
about 30,000 tons in 1937 to something like 1 million tons
(which is considerably more than Austria's total peace-
time requirements) may, it is feared, have dangerously
exhausted these valuable resources. Similarly, the rate
of exploitation of the iron ore deposits reached an un-
desirably high level.¹¹

727 Our provisional economic balance sheet would not be
complete without remembering the tragic destruction of
manpower: the thousands of Austrians killed in Hitler's
war and the many brave men and women done to death in
concentration camps and at the hands of the executioner.

1 [CR Gregory 116, p. 92 — ANALYST]

NOTES TO CHAPTER VI

1. "German security capitalism, unlike British security capitalism, operated not under *laissez-faire* but under strict government regulation aimed at both economic and political objectives."—George W. Edwards, *The Evolution of Finance Capitalism*, p. 76. ooo

2. See P. Barrett Whale, *Joint Stock Banking in Germany*, pp. 102-4.

3. For a good summary of these findings see Joseph Borkin and Charles A. Welsh, *Germany's Master Plan*.

4. In 1936, the tax was removed after negotiations between Austria and Germany. German tourists going to Austria were then advised to frequent only Nazi-owned hotels and inns.

5. What this "New Order" meant was outlined in a speech by Dr. Funk, then Minister of National Economy, in July, 1940: "The peace-time economy, prepared in a comprehensive plan, must guarantee to the Greater German Reich a maximum of economic security and to the German people a maximum consumption of goods, in order to increase the welfare of the people. The European economy must be directed to this end." Quoted in *The Penetration of German Capital into Europe*, No. 5 of a series of reports on conditions in occupied territories issued by the Inter-Allied Information Committee in London (1942).

6. Owing to the various bank mergers which had taken place after the inflation and during the depression, the number of major banks had fallen from 8, in 1926, to 2, in 1938.

7. According to the *Survey of International Affairs* for 1938, German investments in Yugoslavia amounted to only 55 million dinars, while Austrian investments amounted to 336 million dinars.

8. For a more detailed description of the transfer of Austrian capital into German hands, see *Österreich unter dem Reichskommissar* (Paris, 1939).

9. The participation of German capital in the total issued

AUSTRIA'S ECONOMIC DEVELOPMENT

060 share capital of the more important branches of industry has shown the following alterations:

	Percentage of German Capital	
	1937	1944
Banking	9	82
Mining	60	96
Machine industry	12	81
Electricity supply	34	82
Electrical engineering	46	92
Insurance	56	80
Paper and cellulose	5	66

10. It has been estimated that about 3 million Germans and 1 million foreign workers came into Austria, while about 1 million of the 6½ million Austrians were scattered abroad.

11. Output of crude ore increased from 1.8 million tons in 1938 to 5 million tons in 1942 and probably 7 million tons in 1944.

CHAPTER VII

FUTURE PROSPECTS

AUSTRIA is to-day faced with economic problems similar to those of the other liberated countries of Europe. The damage caused by air-raids, fighting, sabotage, and destruction by the Germans will have to be repaired. Large arrears of repair and replacement in building and capital equipment will have to be made good, while the transition from a war economy to peace production is presenting formidable problems of its own. 727

The damage which Austria's economy suffered in seven years of German occupation and six years of war is, of course, very considerable. Nevertheless, the chances for recovery and a relatively short transition period are in many ways better now than they were in 1918. First, the lightning speed with which the Red Army descended on Vienna and the important industrial districts surrounding it, have allowed Austria and Vienna to escape the disastrous destruction experienced by Budapest, Warsaw, and many German towns. Secondly, Austria is not, this time, faced with the tremendous task of changing the economic structure of the metropolitan province of a great empire into that of a small, independent state. There is now no overgrown state apparatus and no heavy burden of pensions on that score. Thirdly, there are new opportunities for firm bonds of friendship between Austria and her neighbours, Czechoslovakia and Yugoslavia, and also with the other nations in south-eastern Europe, and there is every promise of fruitful economic co-operation between them. 648

AUSTRIA'S ECONOMIC DEVELOPMENT

648 The suspicions of 1918 against Austria as the centre of Habsburg power has given way to a feeling of common interest after the common experience of German oppression. Fourthly, the destruction of Germany's political and economic power will, for the first time, allow Austria to re-build and develop her economy freely and without the defeatist and destructive interference of German business and its Pan-German friends in Austria. Last but not least, Austria's prospects of recuperation are better than in 1918 because Austrians themselves have changed. The experience of twenty years—not very easy ones, to be sure—of an independent Austria and of the subsequent catastrophe of seven years of German occupation have cured them of such *Anschluss* ideas as they may have had. They are firmly determined to have their own independent country and to maintain its independence. A healthy and constructive Austrian nationalism has developed in place of the defeatism and lack of confidence of the inter-war period. The active part which many Austrians took in the liberation of their country, and the speed with which Austrians of all parties came together and formed a Provisional Government of national unity is a hopeful sign for the future. Austrians have started to learn to take their fate into their own hands and not to rely solely on foreign help for their salvation. This change of outlook, if it can be preserved and fostered, cannot but greatly assist the reconstruction of the country.

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600 In spite of the extreme seriousness of the present position, then, the outlook for the transition period is quite hopeful. In the first stages a certain degree of foreign help for relief and rehabilitation is, of course, absolutely essential. But if it is given speedily, without the delays and political interference which were such an unfavourable feature of the Hoover Mission in 1919, and

FUTURE PROSPECTS

if it is accompanied by a strong dosis of self-help, Austria should soon be able to stand on her own feet. More than that, she should be able to make her own contribution to the development and industrialization of the backward areas of south-eastern Europe. 000

The question of long-term development, however, puts us on uncertain ground. There are many unknown quantities in the picture. Much will depend on the actual conditions which Austria has inherited from the past, on the way in which world economic conditions develop, and, of course, on the social and economic policies pursued by the Austrian Government. Certain general ideas with regard to the future can, however, be set out and may serve as a basis for discussion and action.

First, it should be clear that the new Austria cannot just go back to where she left off in 1938. Too many changes have taken place since then; moreover, the position at that time was still far from satisfactory. On the other hand, the war economy, which permeated Austria in the past few years cannot, of course, provide a permanent basis for the country's future economic structure.

Take, for instance, the heavy industries. There can be little doubt that their war-time output cannot serve as a basis for future production targets. Peace-time requirements at home and in export markets will not suffice to give employment at the level maintained in the war years. Here the necessary change will come about on the whole quite automatically. A considerable part of the heavy industrial equipment belonged to the Germans and will be used for reparations, while the many foreign workers who were forced into the armament factories have left the country or will do so in the near future.

On the other hand, it may be a mistake to take the 1938 level of production in these industries as a guide for

AUSTRIA'S ECONOMIC DEVELOPMENT

000 future developments. In fact, there is very much to be said for having more heavy industry in Austria than before 1938. There are several reasons for this. Above all, there are ample natural resources to justify the development of this branch of industry. The rich deposits of iron ore, magnesite, of manganese and copper, and the plentiful supply of skilled labour and of technical personnel, provide a sound basis for a heavy industry. The lack of coal can be easily overcome by imports from the comparatively nearby coalfields in Czechoslovakia. Indeed, the need for coal in Austria and for iron ore in Czechoslovakia is one of the many instances where the two countries complement each other in such a way as to provide an excellent basis for a large and expanding exchange of goods.¹

It is also highly probable that the market for heavy industrial products will be much larger than in the past. Austria will surely avoid the deflationary policies of the past and will plan for a state of full employment in which domestic needs for plant and equipment will be much greater; moreover, the undeveloped countries of south-eastern Europe are bound to undergo a lengthy process of industrialization. Germany's monopolistic hold over this area will be broken; it is obvious, therefore, that other countries, and particularly Austria and Czechoslovakia, will become important sources of supply. And it will be, above all, the products of heavy industry that will be required in this task of industrial development.

Finally, it should be remembered that in the inter-war period the development of Austria's heavy industry was hampered and retarded by German control of the Alpine Montan and other firms which resulted in the concentration of development work in Germany and reduced Austria largely to a source of raw materials. For political

FUTURE PROSPECTS

and economic reasons alike, German control of Austrian industry will clearly no longer be allowed. ooo

Any German property that is allowed to remain in Austria must be taken over by the Government. Where property had been acquired by the Germans through confiscation it will be returned to its legitimate owner. But there would seem to be a good case for State ownership and control of heavy industry at least; for otherwise the danger might again arise of these strategic positions being used against the political and economic interests of the nation. If the control of heavy industry, and similarly of other key industries and the major banks as well, were to be coupled with strict supervision of all restrictive agreements, foreign influence could be finally eliminated from Austria's economy, and the Government would be in a position to carry out a successful policy of full employment. At the same time, small businesses would obtain much wider opportunities and freedom of action.

This is only *one* example of the ways in which fuller use should be made of Austria's resources. There is plenty of scope in other fields as well. In view of her resources of oil Austria will not only be able to produce and export petrol and its by-products but also to develop new fields in the chemical industry. Plastics will have a future in Austria both because one of its raw-materials—cellulose—is available in large quantities, and because it is itself an important semi-finished product for many of the lighter metal- and timber-using industries and workshops.

The fuller utilization of Austria's wealth of water-power will be of particular importance. Expansion in this field would ultimately allow by far the greater part of the fuel for domestic and industrial purposes to be covered from this source. The heavy coal import requirements would be reduced; moreover, electricity could be exported to

AUSTRIA'S ECONOMIC DEVELOPMENT

000 other countries which are not so well endowed with hydro-electric resources.

Experience in the Soviet Union, in the Tennessee Valley, and in Scandinavian countries has shown how an intelligent public policy of regional, social, and industrial development can be fruitfully centred on a programme of electrification. Cheap power could become the life-blood for new branches in the metallurgical and other industries; it could serve to improve the transport system, and would give a great stimulus to the production of electrical equipment. The domestic facilities and living conditions of the people would be greatly improved; particularly those of the inhabitants of the more remote parts of the country where conditions are still primitive.²

If the exchange of goods between Austria and her eastern neighbours is to increase, as may be surely expected, Austria's agriculture will also have to undergo certain changes. The agricultural protectionism of the thirties, introduced in response to the growth of industrial tariffs, will have to be modified so that Austria can offer a greater market for the agricultural surplus of the Balkan countries. This does not necessarily mean that the relative importance of agriculture will decline; but there would have to be a change of structure. The production of cereals and other staple foods would give way to that of protective foods—livestock, dairy products, market gardening, etc., being expanded. This development would be fully in line with the ideas and recommendations put forward by agricultural and nutritional experts at the Hot Springs Conference on Food and Agriculture. It would also be in line with the pre-war trends in Austrian agriculture and would fit in with the natural conditions of the country. With the rising standards of living which a full employment policy and peaceful development would

FUTURE PROSPECTS

surely bring, the domestic demand for higher class food-stuffs like milk, eggs, and meat will expand considerably so that increased agricultural imports may well be accompanied by a prosperous and healthy expansion of Austrian agriculture itself.

A word may now be said about the general future of foreign trade in Austria, though this question does not rest with Austria alone. Austria's prosperity and living standards are directly dependent on its trading opportunities and therefore on economic development abroad. The disappearance of German methods of forcing large areas into bilateral trade agreements, and the deliberations of the United Nations at the Bretton Woods Conference, surely justify the hope of less economic nationalism after the war and a limited return, at least, to multilateral trade. Austria, as well as other countries, would certainly stand to benefit from such developments.

In any case, there can be no doubt that Austria's trade with her Slav neighbours—Czechoslovakia and Yugoslavia—should greatly increase. In the past, the artificial diversion of trade caused by the Rome Protocols, and the understandable fears of Pan-German, anti-Slav developments in Austria led to a decline of trade relations between Austria and her Slav neighbours. These stumbling-blocks have now disappeared and have given way to feelings of friendship and common interest, which will certainly bear fruit in the economic sphere. The complementary nature of Czechoslovakia's and Austria's industrial structures has already been mentioned, and there is no doubt that there is a fruitful field for a great expansion of trade between the two countries, particularly if investment programmes and trade policies can be jointly discussed and integrated.

The industrialization of the countries of south-eastern

AUSTRIA'S ECONOMIC DEVELOPMENT

Europe will also have beneficial effects on Austria's trade which will last long after their initial development requirements for capital goods have declined. The main obstacle to greater trade with this area in the past lay in its poverty, mainly due to agricultural overpopulation and primitive methods of cultivation. It was lack of purchasing power, not lack of needs, which restricted the foreign trade of these countries. Their industrialization would prepare the way for an increase in productivity, for the creation of a larger export surplus and, therefore, for a greater demand for imports.

One result of industrialization in south-eastern Europe may, indeed, be a decline of Austria's industrial superiority in that area and a fall in the demand for some of its products. Its terms of trade might even (though not necessarily) deteriorate. But this will be greatly outweighed by the much larger total volume of trade that will materialize, provided Austria's export industries are sufficiently flexible to switch from the traditional low-quality exports designed for that area to high-quality products and even semi-luxuries.³ But there should be no difficulty here as these are precisely the industries for which Austria has always been particularly well equipped.

Particular stress has been laid in the preceding paragraphs on the potentialities for trade expansion in the Danube Basin, because it is there that considerable changes can be expected. But this does not mean that Austrian foreign trade should be exclusively, or even predominantly, restricted to this area. Austria's foreign trade has always been greatly diversified, both with regard to the products exported and as regards the countries to which they were sent. This diversification should be fully maintained and developed. This means that the fashion

FUTURE PROSPECTS

industry, the production of leather goods, lace material, and all the other related products has to be rehabilitated so that they can again find a market in countries with a high purchasing power such as, particularly, Britain and the United States. Greatly expanded opportunities for tourist traffic will provide another considerable item on the balance of payments with these and other countries.

Finally, a field which has been badly neglected in the past and which offers great scope in the future is trade with the Soviet Union. In the 'thirties, trade with that country had dropped to less than 1 per cent of Austria's total foreign trade. There can be no doubt that the present establishment of friendly contacts between the new Austria and the Soviet Union will be conducive to a great increase in trade between the two countries. Austria's engineering and electrical industries will certainly be able to provide many goods essential to the Soviet Union, while that country, in turn, possesses many of the raw materials and manufactured goods which Austria has to import. The fact that the Soviet Union is now a Danubian state has also strengthened the geographic basis for mutual trade.

If all, or at least some, of these trading opportunities are developed there can be hardly any doubt of Austria's permanent capacity to pay for her essential imports of raw materials and foodstuffs and, indeed, for those foreign manufactured goods and semi-luxuries which a rising standard of living will call for. Moreover, a properly developed Austrian economy should be able to produce a sufficiently high export surplus to repay those foreign loans which might be needed in the first stages of relief and rehabilitation.

Much more could be said on Austria's economic future. Questions such as the structure of industry and banking,

AUSTRIA'S ECONOMIC DEVELOPMENT

600 social and labour policy, currency matters, etc., have not even been touched upon. But it would be out of place in a general survey such as this to attempt to produce detailed blueprints for every branch of economic activity. The above remarks may at least serve to illustrate the significance of that part of the Moscow Declaration which states that independence will "open the way for the Austrian peoples themselves, as well as those neighbouring states which will be faced with similar problems, to find that political and economic security which is the only basis for lasting peace".

But in spite of the clear language of the Moscow Declaration, in spite of the unmistakable wishes of the Austrians themselves, sceptical voices are again heard from time to time asking whether small states in general, and Austria in particular, can go back to independence. Will Austria be a "going concern"? Will it not be necessary to incorporate it into a larger economic area? Much of what has been said in this book will, it is hoped, have provided an answer to such questions. But here, in conclusion, a few further observations may be offered on this subject.

As far as Austria is concerned, the economic advocates of geo-political solutions fall roughly into two groups: those favouring the *Anschluss* and those recommending some sort of eastern European or Danubian federation. As regards the *Anschluss*—be it with Germany as a whole or with some of the southern German states—it is fortunately no longer necessary to enlarge on this proposition. For Austria it would mean the subordination of its industry to German requirements, the reduction of the country to a raw material base for Germany. For central and eastern Europe it would carry a renewed threat of German economic and political penetration and domination. From

FUTURE PROSPECTS

this there would be only a short step towards conflict and another war in Europe and the World. ooo

The regional blocs which have been proposed in one form or another for central and eastern Europe may also carry political dangers with them. They may, for instance, be intended to split and separate the Great Powers who have won this war and whose unity must be the guarantee for future peace. But even on the purely economic plane the problem of federation is not a simple one. If two or several countries have a highly homogeneous economic and social structure, and a similar outlook on politics and economics, federation might be very fruitful. But it is precisely these conditions which are lacking in that area. Hungary, which up to the war possessed a semi-feudal structure, faces problems which are quite different from those of Austria, where the land problem was negligible compared with that of industrial cartels, for instance.

One of the most urgent problems in the area is the industrialization of the backward agricultural countries. A customs union of these countries with the industrial economies of Austria and Czechoslovakia, combined with a more or less *laissez-faire* economic policy, would mean that the new industries in those countries would never get a chance to develop. They would remain backward simply because they had been backward before.⁴ On the other hand, for Austria a regional bloc, particularly if it should adopt a strong protectionist policy, would mean that many valuable features of her economy (such as the great diversification of production and trade) would be lost. Let there be no mistake; close economic co-operation between the governments in this area is highly desirable and, indeed, essential. But a considerable degree of independent action will be necessary for each country to be able to solve its own specific problems.

AUSTRIA'S ECONOMIC DEVELOPMENT

oo The main error of the out-and-out "federationists" is that they mistake the form for the essence. Federation is one form in which, under certain circumstances, economic co-operation may best be accomplished. The essential thing, however, is not federation but economic co-operation, and it is on this that the future of Austria and of the world depends. Political security, based on the close co-operation of the Big Five and of all peace-loving democratic nations, full employment, a prosperous and expanding world trade, the development of backward areas, in short, "freedom from want and fear"—this is the framework in which all nations, big and small, can prosper and develop. Destroy this basis, go back to division and political insecurity, mass unemployment and economic nationalism, and mankind will face a new disaster. The small nations would again be the first to feel the shock but ultimately the whole world would be involved in conflict and destruction.

In the prevention of such danger by the democratic peoples of the world lies our hope for a bright future.

NOTES TO CHAPTER VII

1. In the past the German-controlled Alpine Montan preferred to buy its coal from the Ruhr mines owned by the German Steel Cartel.

2. The great potentialities of hydro-electric development in Austria are ably summarized in the memorandum *Ausbau der Oesterreichischen Energiewirtschaft*, by Professor Johann Grabscheid (published by the Free Austrian Movement, London, 1944).

3. See, A. J. Brown, *Industrialization and Trade*, Chaps. II and III.

4. For a general discussion of the economic effects of federation on a small country see K. W. Rothschild, "The Small Nation and World Trade", *Economic Journal*, April, 1944.

INDEX

A

- Abyssinian War, 75
- A. E. G. Union Elektrizitaets-gesellschaft, 81
- Agriculture
 - under the Habsburgs, 9
 - in the first World War, 15
 - during the inflation, 28
 - in the readjustment period, 38
 - in the consolidation period, 45-6
 - in the depression, 53-4
 - in the recovery period, 66-7
 - under German occupation, 88-90
 - future prospects, 98-9
 - dairy farming, 5, 46, 66-7, 98-9
 - land utilization, 5
- Alpine Montan Gesellschaft, 30, 81-3, 96
- Amstel Bank, 57
- Anglo-Austrian Bank, 55
- "Anschluss", 1, 20, 72, 94, 102
- "Aryanization", 87
- Austrian National Bank, 32, 58-61, 69, 85

B

- Balance of Trade (see Foreign Trade)
- Balkans, 1, 11, 43, 56, 73, 79, 85-7, 98
- Bank for International Settlements, 59
- Bank of England, 59
- Banking
 - during the inflation, 27, 30
 - in the readjustment period, 37, 39, 43
 - in the consolidation period, 47, 48
 - in the depression, 54-9

Banking (cont.)

- control of economic life, 86-7, 97
- German influence, 80, 81, 86-7
- BAUER, Dr. Otto, 20
- Belgium, 41
- BENEŠ, Dr. Eduard, 72
- Bodencreditanstalt, 55
- Bohemia, 9, 10, 16, 18, 88
- Brenner Pass, 7
- Bretton Woods Conference, 99
- Budapest, 93
- Budget Policy
 - during the inflation, 22-4, 31
 - during the stabilization, 31-3
 - in the consolidation period, 47
- Bulgaria, 42, 49, 51, 59, 74

C

- Cartels (see Monopolies)
- Clearing Agreements, 60-1, 75-6, 83, 85
- "Compensation Treaties", 18
- Cost of Living, 21, 27
- Court of International Justice, 72
- Credit-Anstalt, 54-9, 68-9, 86
- Currency
 - flight from the Crown, 22, 29, 32
 - note circulation, 21, 25, 58
 - stabilization, 31-3
 - in the depression, 58-61
 - in the recovery period, 68-9
- CURTIUS, Dr. Julius, 72
- Customs Union (see Germany)
- Czechoslovakia, 1, 5, 11, 20, 32, 40, 41, 42, 44, 51-3, 60, 65, 69, 70, 72-6, 84-5, 88, 93, 96, 99, 103

D

- Darmstaedter und National Bank, 57

INDEX

Deflation, 65, 96

Denmark, 60

Depositen Bank, 55

Deutsche Bank, 86

Devaluation, 60-1, 68-9

DOLLFUSS, Dr. Engelbert, 82

Dreadner Bank, 86

E

Electricity, 7, 81, 85, 89, 97-8

Enns, 9

Erzberg, 6

Exchange Control, 60-1, 69

Exports (see Foreign Trade)

F

Federation, 102-4

Foreign Credits

Relief credits, 17-19, 31-2, 101

First League Loan, 31-3

Second League Loan, 59, 68-9

short-term loans, 37, 40, 48, 56, 58-9, 68-9

in the depression, 52, 56-60

in the recovery period, 67-9

Foreign Exchanges

during the inflation, 22, 25-6, 29, 30, 36

stabilization, 31-3

in the depression, 59-61

in the recovery period, 69

German booty, 85

Foreign Trade

after the first World War, 16, 18

during the inflation, 29-31

in the readjustment period, 39-43

in the consolidation period, 46-9

in the depression, 51-4, 60-2

in the recovery period, 66-9, 71-6

under German control, 86, 89

future prospects, 99-101

other references, 9, 80

France, 17, 32, 41, 51, 70, 72, 79

Full Employment, 96-8, 104

G

Geneva Conference (1927), 42

Geneva Protocols, 32, 72

German Steel Cartel, 31, 82

Germany

customs union, 72-3, 84

"Drang nach dem Osten", 1, 79

economic imperialism, 4, 79 ff.

occupation of Austria, 85 ff.

trade offensive, 71-5

other references, 5, 7, 14, 21, 33, 41, 44, 51-3, 59, 60, 65, 93-7, 99, 102

Government Expenditure and Revenue (see Budget Policy)

Great Britain, 5, 17, 18, 32, 40-2, 44, 52-3, 57, 65, 69, 70, 79, 83, 89, 101

Greece, 59, 60, 74

Grossglockner Road, 68

H

Habsburg Empire

economic development, 8-11

German penetration, 1, 79-80

problems, created by its break-up, 3, 14-16, 39, 55, 93-4

Heavy Industry

location, 10, 89

ownership, 30, 81-3, 87, 97

other references, 6, 66, 88, 95-7

"Heimwehr", 82

Henschel Works, 87

Hermann Goering Works, 87, 88

HITLER, Adolf, 1, 4, 73, 82, 84, 90

Hoover Mission, 17, 94

Hot Springs Conference, 98

Hungary, 5, 16, 41, 45, 49, 51-2, 59, 60, 70, 74-5, 103

I

I.G.-Farben Gesellschaft, 87

Imports (see Foreign Trade)

Industrial Concentration, 27, 87

Industrial Production

in the first World War, 15

INDEX

Industrial Production (*cont.*)

during the inflation, 28-9, 31
in the readjustment period, 38
in the consolidation period,
44-5
in the depression, 52, 54, 56
in the recovery period, 65,
71
under German occupation,
87-9
future prospects, 95-8
Industrialization of Undeveloped
Areas, 95-6, 99-100, 103-4
Inflation 3, 19 ff., 36-9, 43, 47,
52, 55, 60
Interest Rates, 37, 56, 69
Iron Ore, 3, 6, 85, 90, 96
Italy, 17, 30, 32, 41, 51, 69, 75,
82

K

KARL, Emperor, 14, 19
Korea, 7
Krupp Concern, 87

L

LAYTON, Sir Walter, 40
League of Nations, 32, 59, 68
"Lebensfähigkeit" (see Via-
bility)
Linz, 9, 88-9
LIPPMANN, Walter, 47
Loans (see Foreign Credits)
Location of Industry, 10, 89

M

Monopolies, 37, 71, 83, 97, 103
Moravia, 10, 88
Moscow Declaration, 1, 2, 102

N

National Bank (see Austrian
National Bank)
National Debt, 31
National Income, 70, 71
Nationalization, 97
Netherlands, 17, 41
"New Order", 86

O

Oil, 3, 7, 90, 97

P

Pan-Germanism, 4, 21, 72, 82,
84, 94, 99
Poland, 1, 41, 88
Population, 3, 9, 42
Profits, 26, 28, 56, 58, 71
Protectionism (see Tariffs)
Public Works, 71

R

Rationalization, 36, 45, 47, 87
Regional Blocs, 102-4
Relief Measures, 17, 21, 94
Reparations, 31-2, 95
RIST, Professor, 40
Rome Protocols, 75, 99
Rothschild Bank, 58
Roumania, 41, 42, 49, 51, 74

S

Salzburg, 18, 68
Savings, 26, 37
SCHÖBER, Dr. Johann, 72
SEIPEL, Dr. Ignaz, 21
Semmering Pass, 8
Siemens-Halske A. G., 81
Siemens Schuckert A. G., 81
Silesia, 10, 18
Soviet Union, 1, 6, 7, 74, 88, 98,
101
Standard of Living, 15-17, 26-8,
69-71, 98-9, 101
State Ownership, 97
Steyr, 9, 89
STINNES, Hugo, 82
Stock Exchange, 37, 87
Subsidies, 22, 45
Sweden, 42
Switzerland, 3, 5, 8, 17, 21,
41-2, 51, 69

T

Tariffs, 39-42, 44, 48, 51, 53-4,
60, 71-2, 75, 98
"Tausend Mark Sperre", 84

INDEX

- 000 Taxation (see Budget Policy)
Tennessee Valley, 98
THYSEN, Fritz, 82
Timber, 3, 6, 85, 90
Tourist Traffic
 importance, 7, 8
 during the inflation, 30
 in the readjustment period, 40
 in the recovery period, 67-8
 "Tau-send Mark Sperre", 84
 future prospects, 101
Turkey, 74
- U
- Unemployment
 after the first World War, 19
 during the inflation, 28
 in the readjustment period,
 36-9
 in the consolidation period,
 46-7
 in the depression, 52, 54, 58
 in the recovery period, 65-6,
 71
United States, 6, 17, 29, 40, 47,
 51-3, 56-7, 65, 74, 83, 89,
 101
- V
- Vereinigte Industrie A. G., 87
Vereinigte Stahlwerke, 82
- Viability of Austria's Economy,
 3, 4, 20-1, 36, 84, 102
Vienna
 building activity, 43-4
 importance of position, 1, 30
 industrial and commercial
 centre, 10, 30, 43, 55
 problem of readjustment, 22-3,
 42-3
 situation after first World
 War, 16-17
 unemployment, 19, 42
 other references, 7, 9, 18, 21,
 68, 87, 93
- W
- Wages
 during the inflation, 27
Warsaw, 93
Water-power, 3, 7, 97-8
Wels, 89
WILHELM, Emperor, 1
- Y
- Yugoslavia, 20, 41-2, 49, 51, 60,
 70, 74, 93, 99
- Z
- Zentraleuropaeische Laender-
 bank, 86
Zistersdorf, 7, 90

9: Rothschild E-4, 5 (no date) 1947 EK1 Austria EK1

MAPS AND DIAGRAMS 600

[p. 169]

634
496
133

AUSTRIA

— COUNTY BOUNDARIES
— MAIN RAILWAYS
— ABOVE 3,000 FEET

[p. 110]



9: Rothschild F-4, 5 (no date) 1947 EK1 Austria EK1

LAND UTILIZATION

311

- INDUSTRY
- AGRICULTURE
- PASTURE AND FOREST



DENSITY OF POPULATION

161

- OVER 200 PER SQUARE KILOMETRE
- 100-200
- 50-100
- UNDER 50



[p. 111]

377 ELECTRICITY

THE FIGURES INDICATE THE MAXIMUM CAPACITY

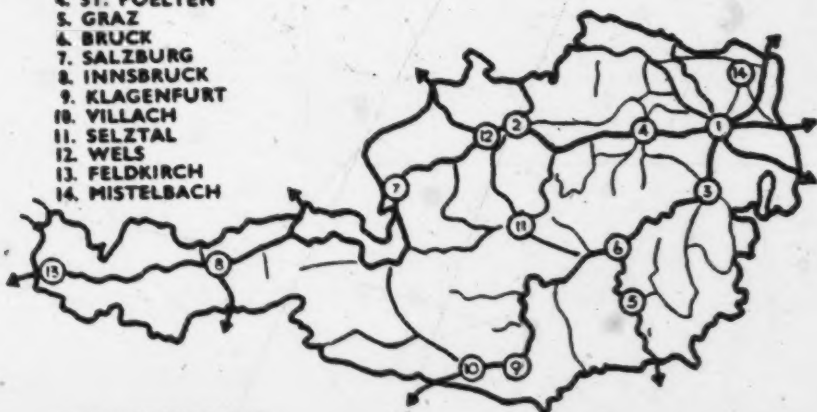
- OVER 10,000 H.P.
- 5-10,000 H.P.
- 1-5,000 H.P.



496

1. VIENNA
2. LINZ
3. WR. NEUSTADT
4. ST. POELTEN
5. GRAZ
6. BRUCK
7. SALZBURG
8. INNSBRUCK
9. KLAGENFURT
10. VILLACH
11. SELTZAL
12. WELS
13. FELDKIRCH
14. MISTELBACH

RAILWAYS



- EXPRESS TRAINS
- FAST TRAINS
- SLOW TRAINS

[P. 112]

INDUSTRY

- METAL INDUSTRY
- CHEMICAL INDUSTRY
- SHIPBUILDING



327

38

396

INDUSTRY

- WOOD
- PAPER



313

289

[p. 113]

INDUSTRY

288

323

282

- TEXTILES
- GLASS
- LEATHER



INDUSTRY

277

257

274

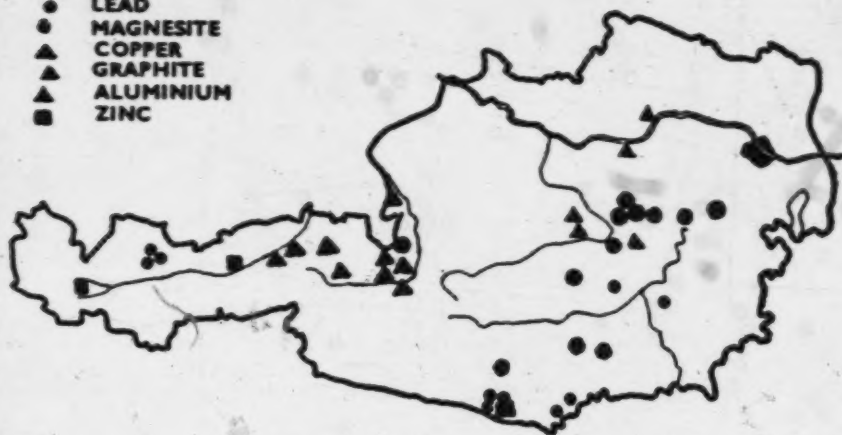
- TOBACCO
- SUGAR
- BEER



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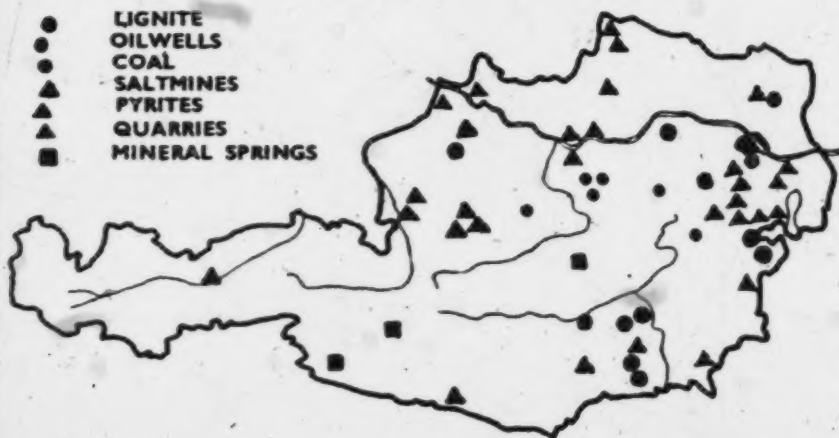
- IRON
- LEAD
- MAGNESITE
- ▲ COPPER
- ▲ GRAPHITE
- ▲ ALUMINIUM
- ZINC

135



RAW MATERIALS

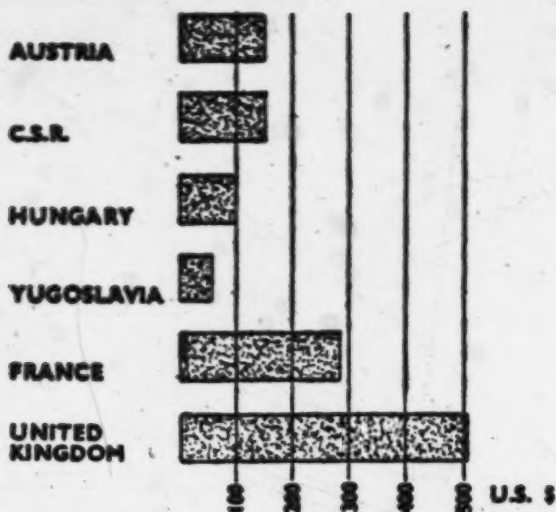
- LIGNITE
- OILWELLS
- COAL
- ▲ SALTMINES
- ▲ PYRITES
- ▲ QUARRIES
- MINERAL SPRINGS



[p. 115]

434

ESTIMATES OF NATIONAL INCOME PER HEAD IN 1925 - 1937



PER HEAD
OF POPULATION 1937

ESTIMATED YEARLY CONSUMPTION OF SOME MANUFACTURED GOODS

COTTON
GOODS

PAPER

SUGAR

WIRELESS SETS
NUMBER OF
LICENCES PER
1000 PERSONS

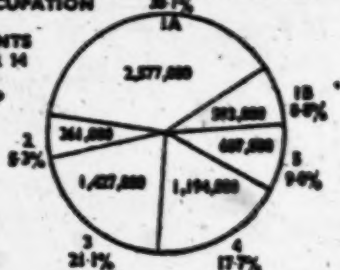
KILO

AUSTRIA
 C.S.R.
 HUNGARY
 YUGOSLAVIA
 WEST EUROPE

[p. 116]

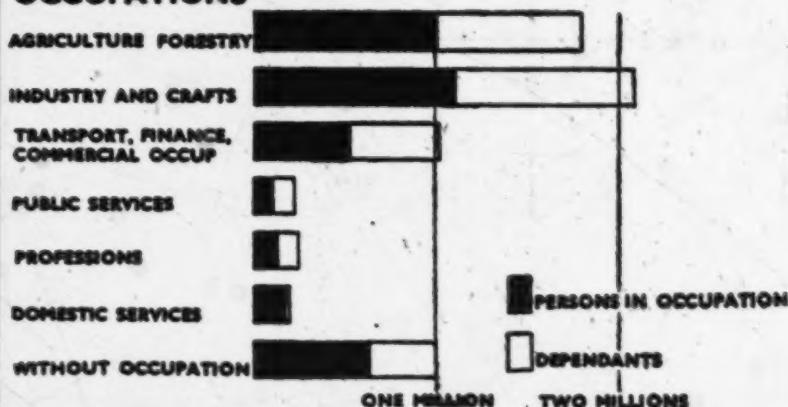
STRUCTURE OF POPULATION (BASED ON 1934 CENSUS)

- 1A. PERSONS IN OCCUPATION
- 1B. UNEMPLOYED
- 2. OTHER DEPENDANTS
- 3. CHILDREN UNDER 14
- 4. HOUSEWIVES
- 5. WITHOUT OCCUP

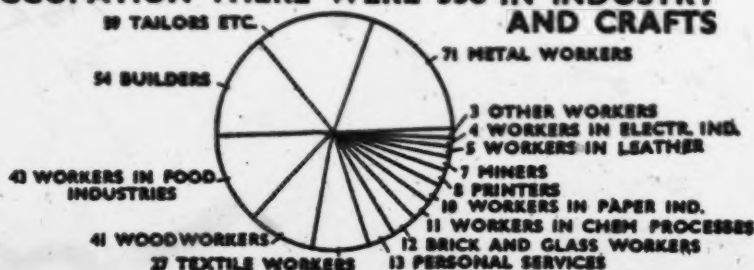


162
463

OCCUPATIONS



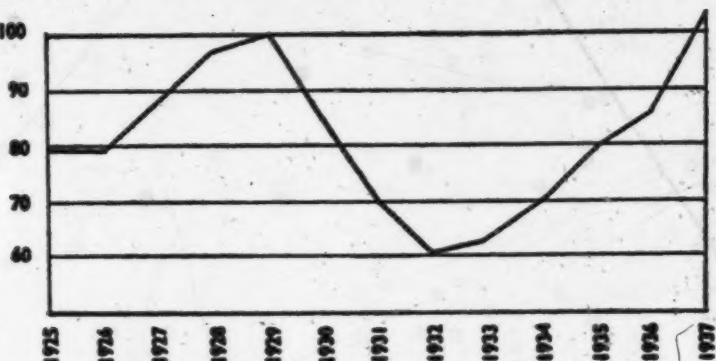
OUT OF ONE THOUSAND PERSONS IN OCCUPATION THERE WERE 358 IN INDUSTRY AND CRAFTS



[p. 117]

INDEX OF INDUSTRIAL PRODUCTION 1929=100

433

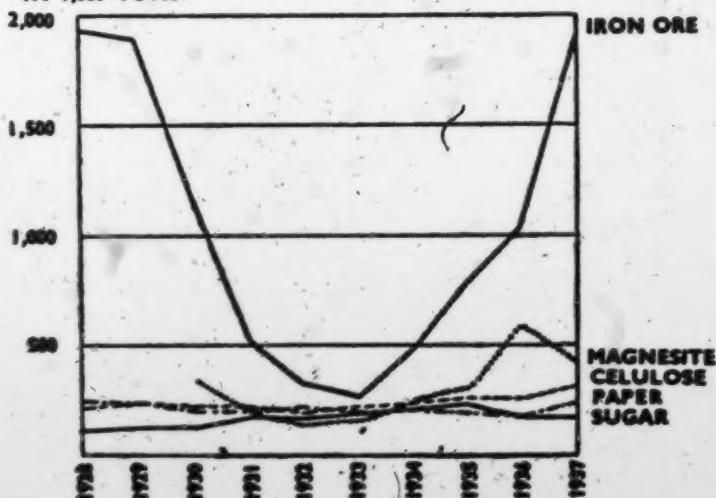


ELECTRICAL ENERGY IN MILL. KW.

[377]



OUTPUT OF CERTAIN COMMODITIES IN 1,000 TONS

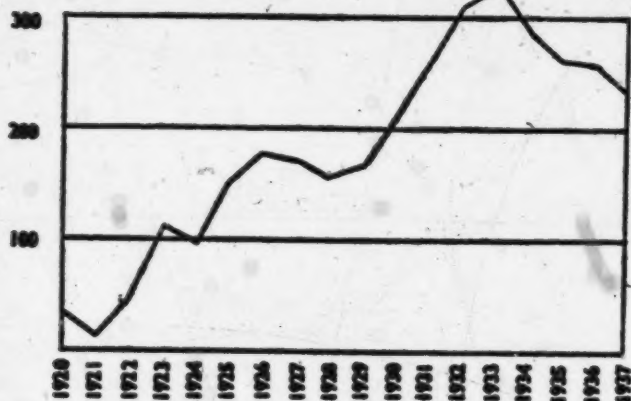


[p. 118]

UNEMPLOYMENT

UNEMPLOYED IN RECEIPT OF BENEFITS IN THOUSANDS

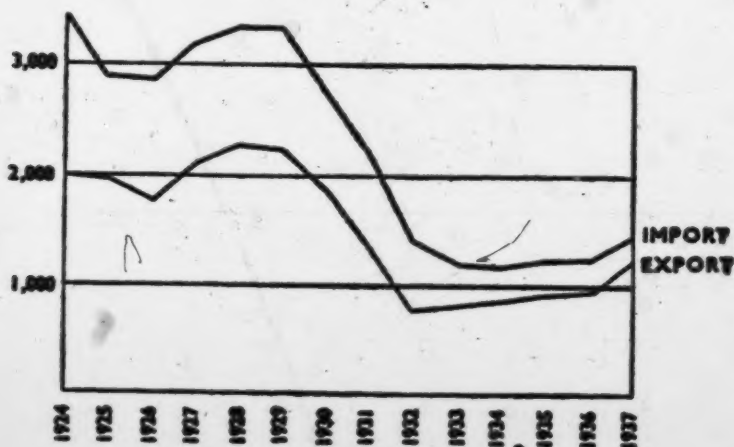
464



IMPORTS AND EXPORTS OF COMMODITIES

IN MILLION SCHILLINGS

439

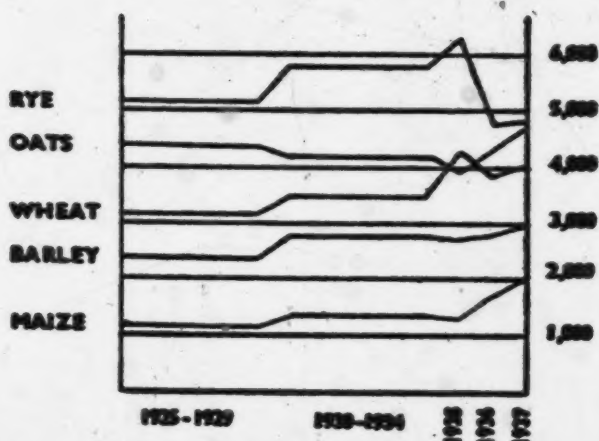
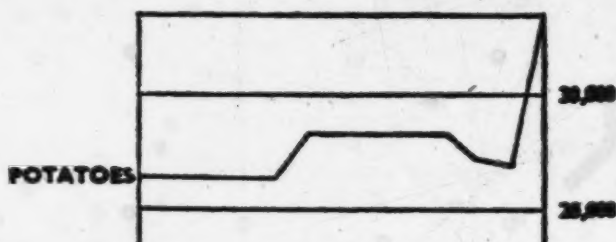


[p. 119]

PRODUCTION OF CERTAIN AGRICULTURAL PRODUCTS IN THOUSAND QUINTALS

433

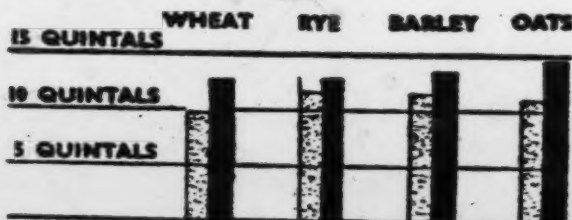
241



COMPARISON BETWEEN AGRICULTURAL YIELDS PER HECTARE

IN AUSTRIA

EUROPE AS A WHOLE



[p. 120]

9: Rothschild

EK1 Austria EK1

185, 178

[For informed speculation on the political and economic factors likely to affect social planning and probable trends in post World War II, Austria, see category 116, pp. 93-104.]